ROSNEFT

ROSNEFT SUSTAINABILITY REPORT 2016

CONTENTS

MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

2016 was a momentous year for Rosneft and Russia's oil and gas sector as a whole. Rosneft became the largest company in the country in terms of market capitalization. The privatization deal, completed in 2016, became a landmark event for the global oil and gas market: a consortium of Glencore, the world's largest oil trader, together with the Qatar Investment Authority sovereign wealth fund, acquired a 19.5% stake in Rosneft. The deal generated over RUB 700 billion in revenue for the Russian Federation.

Acting on a Resolution of the Russian Government, the Company purchased a controlling stake in Bashneft in October 2016. As a result of the deal, Rosneft emerged as a stronger global player, adding another 10% to its liquid hydrocarbon production and 20% to its refining capacity. The deal also provided significant potential, which is to be achieved in the coming years. In 2016 the Company also made a number of strategic acquisitions, including the Targin deal, which marked an important milestone in building on its oilfield services business.

Rosneft strengthened its international standing by signing an agreement to become a part-owner of the Vadinar refinery, one of the most technologically advanced refineries in India. It also increased stakes in three German refineries to become the third-largest refiner in Germany. At the end of 2016, the Company signed a deal with ENI to acquire a 30% interest in a concession for the development of Zohr, a giant gas field in the Mediterranean Sea off the coast of Egypt.

ROSNEFT BECAME THE LARGEST COMPANY IN THE COUNTRY IN TERMS OF MARKET CAPITALIZATION. THE PRIVATIZATION DEAL, COMPLETED IN 2016, BECAME A LANDMARK EVENT FOR THE GLOBAL OIL AND GAS MARKET

The Company's management has followed a balanced approach in its investment, operating, financial and social policy. Our achievements make a convincing case for the work we do to advance our sustainable development agenda in all core lines of our business, harnessing the country's energy potential, maintaining energy security and promoting stewardship of natural resources.

Rosneft places a strong focus on engaging with small and medium-sized businesses in all regions where it has a presence. Our activities have a substantial impact on related industries. In pursuance of the instructions of the Russian President, Rosneft works closely with its consortium partners to develop an industrial and shipbuilding cluster in the Russian Far East based on the Far Eastern Shipbuilding and Ship Repair Center, with the Zvezda shipbuilding complex in Bolshoi Kamen at its core. Rosneft was the first company to place orders with the new shipyard and sign contracts to build four ice-breaker supply vessels, while its subsidiary, Rosnefteflot, signed a contract to buy five eco-friendly Aframax tankers.

Rosneft has increased its investment spending to RUB 738 billion (including joint projects), up 17% from a year earlier. In 2017 we will remain focused on promising frontier areas in Russia and plan to invest RUB 1.1 trillion in their development.

Our top priorities are a high standard of corporate governance, information transparency, and compliance with rules and standards that meet the requirements of the state, the market and the general public.

As a major initiative on the corporate governance front, we have revised our dividend policy to increase the minimum payout ratio to 35% of net earnings reported under IFRS. In 2016 we completed the roll out of the Code of Business and Corporate Ethics across the organization.

As a leading player in Russia's economy, Rosneft is aware of its responsibility and continues to run socially significant projects and initiatives everywhere it operates. These efforts help to improve the economic, regulatory and organizational environment of the Company's business operations and drive sustainable development of Russian regions.

Sincerely,
Andrey Belousov
Chairman of the Board of Directors

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

In 2016 Rosneft reaffirmed its position as a leading player on the domestic and world oil and gas markets. The Company extracts and processes oil and gas, and supplies consumers with quality energy products while making sure that the nation's unique wealth of natural resources is used effectively. Rosneft made its debut as the nation's largest market-capitalized company in 2016 and it continues to maintain this status today.

The Company is the biggest taxpayer in Russia, playing a critical role in providing the budget with a sustainable revenue stream. In addition to tax payments, the Russian Federation received more than RUB 1 trillion in revenue in 2016 as a result of an integral deal to privatize a 19.5% stake in Rosneft and the Company's acquisition of a controlling stake in Bashneft.

Despite strong macroeconomic headwinds and global oil and gas market volatility, Rosneft set a new record, with 265 mmtoe of hydrocarbons produced in 2016 (210 mmt of oil and 67 bcm of gas), up 4% from a year earlier. Production drilling rose by 35% to 9.3 million meters and 2.6 thsd of new wells were brought on stream, up 43% from 2015. Exploration activities in 2016 resulted in the discovery of 127 new deposits and 13 new fields with total reserves of 207 mmtoe[1].

Striving to become a technology leader in the global energy sector, Rosneft consistently drives innovation by deploying new technologies, upgrading existing production processes and coming up with other initiatives. The Company also spearheads the scientific research of the Arctic. Rosneft launched several major expeditions

DESPITE STRONG MACROECONOMIC HEADWINDS AND GLOBAL OIL AND GAS MARKET VOLATILITY, ROSNEFT SET A NEW RECORD, WITH 265 MMTOE OF HYDROCARBONS PRODUCED IN 2016

in 2016, such as Kara-Summer 2016 and Chukotka-Summer 2016, and organized year-round environmental monitoring in the Khatanga Bay. In the same year, the Company spent RUB 44.1 billion on innovation, including RUB 20.2 billion on R&D projects.

Honoring the primacy of human life and wellbeing, the Company is committed to operating safely and responsibly, protecting the health and safety of its employees and contractors, and reducing the impacts of environmental hazards on local communities. In 2016 Rosneft continued extensive improvements to its industrial and occupational health and safety culture through informed leadership and responsible governance. Injury rates among employees declined by over 30% from 2015.

Last year, the Company continued to work closely with BP to improve the existing industrial safety management system and invested RUB 34.3 billion in maintaining occupational safety.

Environmental protection lies at the heart of the Company's corporate culture, driving its sustainable development. In 2016 Rosneft adopted an Environmental Management Efficiency Program for the period until 2025, which is aimed at achieving the environmental protection targets set in the Company's Long-Term Development Program. Management also approved a package of measures to improve environmental awareness. As a result of measures taken under the Gas Investment Program in 2016, the associated petroleum gas utilization rate increased to 90%, 2.1 percentage points above the 2015 level. The Company contributed RUB 47.1 billion in direct and indirect investment to environmental protection initiatives in 2016. The overall 2016 spending on environmental sustainability totaled RUB 73.7 billion.

The Company has a long-lasting status as one of the largest employers in Russia. Total headcount at the end of 2016 was 287.7 thsd employees[2]. The average monthly salary in the vast majority of Group entities has traditionally been above the average for their regions.

Rosneft pursues social and economic programs in its regions of operation under various agreements and provides funding for charity projects. Rosneft's social spending in 2016, including investments in charity programs and regional social activities, exceeded RUB 4 billion[3].

The Company continued to strengthen and develop the compliance framework that ensures observance of applicable laws, business ethics standards and internal regulations. About 4,000 employee meetings were held in 2016 to promote the wider adoption of the revised Code of Business and Corporate Ethics. Rosneft also undertakes extensive efforts to improve its anti-corruption and anti-fraud framework in line with the National Anti-Corruption Plan.

In its activities, Rosneft is guided by the core principles established in the UN Global Compact. The Company is aware of its impact on the sustainability agenda in the regions where it operates, and of its role as a major player on the global oil and gas market.

Rosneft is moving forward on its strategic growth path to hold a leading position on the global oil and gas market. Over the next few years, we plan to increase our annual investments to RUB 1 trillion, largely as a result of accelerated development, bringing into production new discoveries and expanding drilling at mature fields. The Company will continue embedding responsible and sustainable culture to achieve its goals and support efficient use of the nation's energy potential by following standards of energy security and taking good care of the environment.

Sincerely,
Igor Sechin
Chief Executive Officer

1. AB1C1+B2C2 reserves, including Bashneft since 1 January 2015.
2. Hereinafter, quantitative HR data is presented within the scope of the Company's centralized business plan. In the 2016 Annual Report, headcount is presented based on the IFRS reporting scope and amounts to 295,800.
3. Including Bashneft's charity expenses for Q4.

KEY SUSTAINABILITY PERFORMANCE INDICATORS

Operating and economic performance indicators[4]

INDICATOR	2014	2015	2016
SEC proven reserves of oil, condensate and natural gas liquids, mmt	3,432	3,331	3,701
SEC proven gas reserves, bcm	1,414	1,609	1,714
Hydrocarbon liquids production, mmt	204.9	202.8	210.0
Gas production, bcm	56.7	62.5	67.1
Hydrocarbon production, mboe	1,864	1,883	1,965
Oil processing, mmt	99.8	96.9	100.3
Output of petroleum products and petrochemicals, mmt	97.1	95.4	98.2
Assets at the end of the year, RUB billion	8,736	9,642[5]	11,030
Total revenues and equity share in profits of joint ventures and associates, RUB billion	5,503	5,150	4,988
Total equity, RUB billion	2,881	2,929	3,726
Current and non-current liabilities, RUB billion[6]	5,855	6,650[7]	7,304
Dividends paid in the reporting year for the preceding year, RUB billion	136	87	125

Direct economic value generated and distributed, RUB billion

INDICATOR	2014	2015	2016
Generated direct economic value			
Revenues	6,028	5,445	5,134
Economic value distributed			
Operating costs	1,385	1,590	1,743
Employee wages and benefits	231	257	277
Payments to providers of capital	192	152	177
Taxes, duties and national insurance contributions	2,968	2,259	2,023
Community investments	8	9	11
Economic value retained	1,244	1,178	904

4. According to IFRS, unless stated otherwise.
5. Data has been adjusted after the allocation of the purchase price of Trican Well Service, Petrol Market and PCK refinery was finalized.
6. Excluding liabilities relating to assets held for sale.
7. Data has been adjusted after the allocation of the purchase price of Trican Well Service, Petrol Market and PCK refinery was finalized.

Health, safety and environment performance indicators[8]

INDICATOR	2014	2015	2016
Incidence rate of non-fatal injuries (per million hours worked)	0.330	0.327	0.210
Incidence rate of fatal injuries (per 100 million hours worked)	3.981	4.759	2.285
Gross emissions of pollutants, thousand tonnes	1,619	1,575	1,554
Air pollutant emissions from extraction activities per thousand tce, tonnes[9]	4.03	3.65	3.82
Air pollutant emissions from refining and petrochemical activities per thousand tce, tonnes	1.27	1.23	1.46
Associated petroleum gas utilization rate, %[10]	80.8	87.9	90.0
Gross wastewater discharges to surface waters, million cubic meters	91.0	110.7	112.5
Wastewater discharges from extraction activities per tce, cubic meters	0.0002	0.0002	0.0001
Wastewater discharges from refining and petrochemical activities per tce, cubic meters	0.8	0.97	0.97
Total pipeline ruptures (in-field oil pipelines, gas pipelines and water pipelines)	9,450	8,841	7,827
Crude oil and petroleum product spills due to ruptured pipelines, tonnes	903	855	694.5
HSE training, thousand man-courses	210.5	255.7	306.1
Occupational health and safety expenditures, RUB million	18,298	32,474	34,344
Fire safety expenditures, RUB million	11,177	10,475	9,913
Blowout prevention and radiation safety expenditures, RUB million	1,017	1,106	1,216
Capital environmental expenditures, RUB million	36,930	44,646	47,137
Operating environmental expenditures, RUB million	21,803	27,000	26,578
Environmental fines payable, RUB million	88	201	260
Payments to budgets at all levels associated with environmental protection and sustainable use of natural resources, RUB million	4,134	5,153	4,511

Emergency prevention and response performance indicators

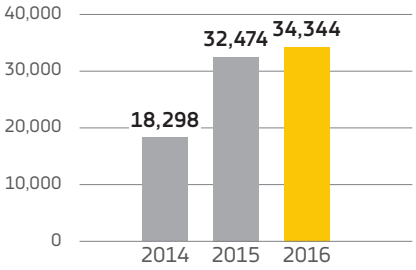
INDICATOR	2014	2015	2016
Emergency prevention and response expenditures, RUB million[11]	3,541	2,952	2,960

Innovation performance indicators

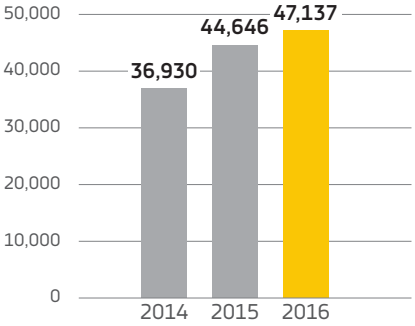
INDICATOR	2014	2015	2016
R&D expenditures, RUB billion	33.2	36.0	20.2

8. According to management accounts.
9. Air pollutant emissions (including by category) and wastewater discharges to surface waters are calculated within the scope of consolidated environmental data.
10. Information about the sustainable use of associated petroleum gas (APG), both current and future, is hereinafter provided for Russian assets only.
11. Total expenditures for 2014 exclude emergency management expenditures which amounted to RUB 349 million in 2014. Emergency management expenditures in 2015 and 2016 were zero and RUB 1.3 million, respectively.

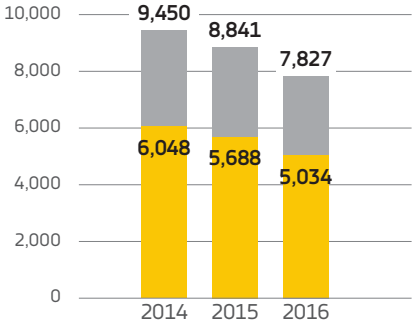
OCCUPATIONAL HEALTH AND SAFETY EXPENDITURES, RUB MILLION



CAPITAL ENVIRONMENTAL EXPENDITURES, RUB MILLION

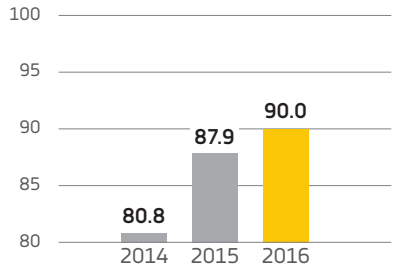


TOTAL PIPELINE RUPTURES

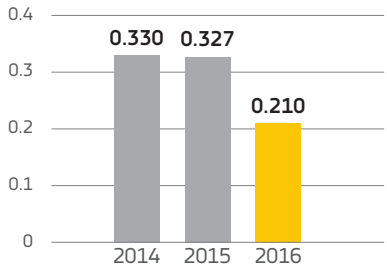


- Total pipeline ruptures (in-field oil pipelines, gas pipelines and water pipelines)
- Total pipeline ruptures resulting in oil spills

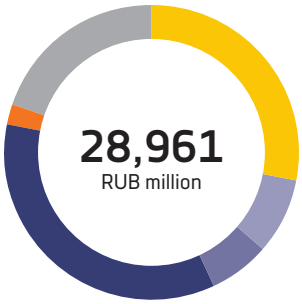
ASSOCIATED PETROLEUM GAS UTILIZATION RATE, %



INCIDENCE RATE OF NON-FATAL INJURIES (PER MILLION HOURS WORKED)

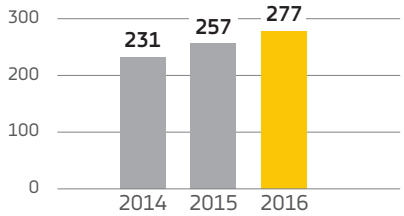


EXPENDITURES ON SOCIAL PROGRAMS, CHARITY AND SOCIAL INVESTMENTS IN THE REGIONS, RUB MILLION[13]

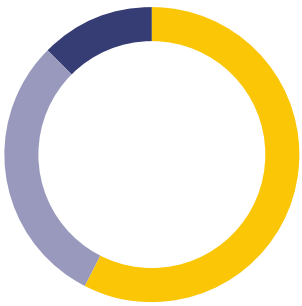


optimizing working conditions	8,197
social investments under cooperation agreements with regional authorities	2,403
charity, including support for educational institutions in line with the government's policy in the area of education and science	1,879[15]
health, promotion of healthy lifestyle and other social expenditures	10,141
housing program	626
non-governmental pension benefits	5,715

EMPLOYEE WAGES AND BENEFITS, RUB BILLION

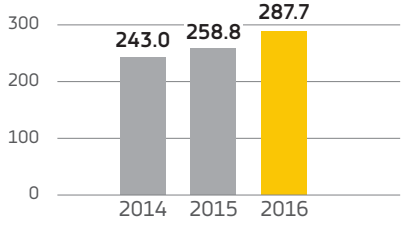


WORKFORCE BY CATEGORY AT THE YEAR END, %



Blue-collar employees	57.7
White-collar employees	29.8
Managers	12.5

HEADCOUNT AT THE YEAR END, THOUSAND



HR performance indicators[12]

INDICATOR	2014	2015	2016
Headcount at the year end, thousand	243.0	258.8	287.7
Average headcount, thousand	228.5	247.5	253.2
Workforce by category at the year end, %			
Blue-collar employees	57.1	55.8	57.7
White-collar employees	30.1	31.6	29.8
Managers	12.8	12.6	12.5
Workforce by gender at the year end, %			
Women	34.0	34.0	33.5
Men	66.0	66.0	66.5
Employee turnover, %	17.0	12.0	10.9
Company average monthly salary per person, RUB	64,933	69,847	75,467
Gross payroll (incl. benefits, one-time bonuses, and annual compensation), RUB million	178,065	207,408	229,318
Social payments to employees, RUB million	5,427	5,898	6,524

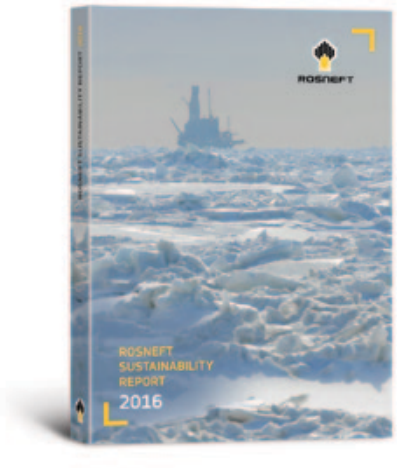
Social performance indicators

INDICATOR	2014	2015	2016
Tax payments and customs duties, RUB million	3,053,696	2,271,568	1,953,666
Incl. tax payments to the federal budget and customs duties	2,801,062	2,007,752	1,615,429
Incl. tax payments to regional budgets	213,107	212,897	281,793
Incl. payments to extra-budgetary funds	39,526	50,919	56,444
Expenditures on social programs, social investments and charity in the regions, RUB million[13]	29,766	35,653	28,961
Incl. optimizing working conditions, RUB million	9,681	12,526	8,197
Incl. social investments under cooperation agreements with regional authorities, RUB million	1,667	4,069	2,403
Incl. support for educational institutions in line with the government's policy in the area of education and science, and other charity initiatives, RUB million	2,573	2,283[14]	1,879[15]
Incl. other social expenditures, RUB million	15,845	16,775	16,482

12. Hereinafter, quantitative HR performance indicators are presented within the scope of the Company's centralized business planning, unless stated otherwise.
13. According to management accounts (within the scope of centralized business planning).
14. Charity support of educational institutions is disclosed separately in the Youth policy section of the 2015 Annual Report, with relevant expenditures not included in the Company's total charity expenses for 2015.
15. Charity expenses disclosed in the 2016 Annual Report do not include charity support of universities and pre-university educational initiatives.

ABOUT THE REPORT

IN THE REPORT PARTICULAR EMPHASIS HAS BEEN PLACED ON MAJOR PROJECTS AND ARCTIC EXPEDITIONS UNDERTAKEN BY THE COMPANY IN 2016, OPTIMIZATION OF HR PROCESSES AND IMPROVED HSE PERFORMANCE.



This 2016 Rosneft Sustainability Report (the "Report") is the eleventh in a series of non-financial corporate reports that are published annually by the Company. All reports are available on the Company's corporate website at www.rosneft.ru

Non-financial reports have been traditionally targeted at a wide range of stakeholders, including Company employees, shareholders, investors, local communities, public organizations, clients and partners.

The Company uses various channels to collect feedback on its sustainability publications, including through telephone and email (with the details provided in the Contacts section of each publication). All comments are carefully analyzed and incorporated in the next report.

In preparing this Report, the Company benefited from the materiality analysis of sustainability aspects conducted in 2014-16, drawing on the approach provided in the fourth generation of Sustainability Reporting Guidelines of Global Reporting Initiative (GRI G4). The material aspects identified in the course of such analysis were included in the 2014 Sustainability Report and remain relevant to the current reporting period.

There have been some changes to the disclosure of certain matters covered in this Report to reflect the priorities of the Company's 2016 sustainability agenda. Particular emphasis has been placed on major projects and Arctic expeditions undertaken by the Company in 2016, optimization of HR processes and improved HSE performance.

The Report is structured to provide insight into the Company's activities in areas such as corporate governance, sustainability management, risk management, stakeholder engagement, scientific advancements and innovations, industrial and occupational health and safety, emergency preparedness, environmental protection, human resources management and local community engagement.

To avoid duplicate disclosures, references to the Company's 2016 Annual Report and other publicly available documents are provided in the Report.

In preparing and presenting the relevant information, the Company is guided by GRI G4 and International Financial Reporting Standards (IFRS) as related to financial and operating performance.

REPORTING PRINCIPLES

The Company's sustainability reporting principles derive from the approach described in GRI. These principles were originally outlined in the 2008 Sustainability Report and have remained unchanged ever since.

The Report provides disclosures for all aspects and indicators described in GRI G4, including oil and gas sector disclosures that were identified as material.

This Report reflects the Company's progress in implementing the principles of the UN Global Compact, and includes information on the basic performance indicators for non-financial reporting developed by the Russian Union of Industrialists and Entrepreneurs. The Company subscribes to and applies the principles of the Oil and Gas Industry Guidance on Voluntary Sustainability Reporting by IPIECA/API (2010).

The 2016 Sustainability Report has been externally assured by EY and has been prepared in accordance with the Core option of GRI G4. The external assurance statement is provided on pages 116 — 118 of this Report.

REPORTING BOUNDARIES

Rosneft prepares sustainability reports on the corporate level, covering all Company entities that are significant to its sustainability performance. The acquisition of the Bashneft group was the most notable deal contributing to changes in the reported parameters. The group's key sustainability performance indicators for 2014–16 are described in Annex 4 of the Report. Bashneft's results for Q4 2016 have been incorporated into respective Rosneft's performance categories in full, with the exception of those listed below.

As in previous years, the reporting boundaries for HR and social performance are set along the boundaries of centralized business planning. There have been major changes to the scope of HR data collection to include the Bashneft group, exclude Far Eastern Bank and move the business and personnel of RN-Inform to SIBINTEK, an out-of-scope company. Beginning from 2016, Rosneft has taken over the operational management of Tomskneft VNK pursuant to a new asset management agreement. Tomskneft VNK has therefore been fully incorporated into HR and social indicators since 2016. Bashneft was included in the scope of HR performance from Q4 2016, i.e. from the acquisition date. Charity payments and payments under agreements with local authorities are also presented inclusive of Bashneft's data for Q4 2016.

Approaches to determine reporting boundaries for HSE and energy performance have not changed substantially. Changes mostly refer to HSE data collection scope, which was expanded to include Bashneft beginning from Q4 2016, while its energy consumption and energy efficiency data will be included in the scope from 2017.

Operating and financial performance disclosures in the Report are made in compliance with IFRS.

COMPANY PERFORMANCE

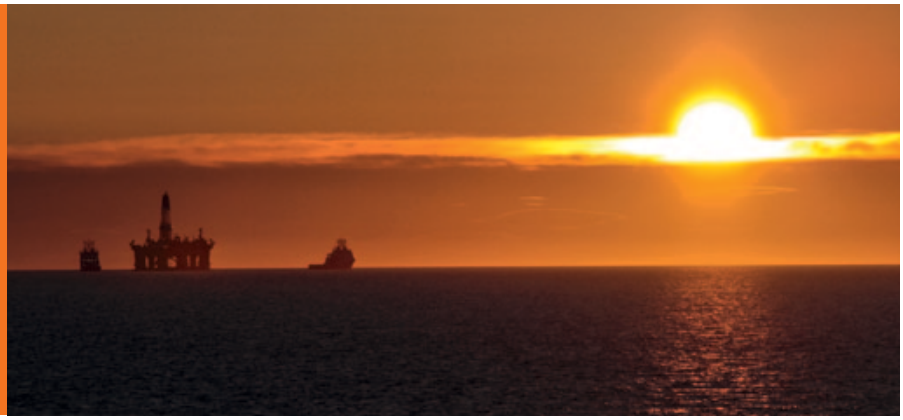
ROSNEFT IS A GLOBAL ENERGY COMPANY WITH A DIVERSIFIED PORTFOLIO COMPRISED OF RUSSIA-BASED CORE ASSETS AND OTHER ASSETS IN FRONTIER REGIONS ACROSS THE GLOBE.

THE COMPANY IN 2016: GENERAL INFORMATION

WITH OVER 265 MMTOE PRODUCED IN 2016, ROSNEFT SET A NEW RECORD AND MAINTAINED ITS STATUS AS THE WORLD'S LEADING PRODUCER OF LIQUID HYDROCARBONS AMONG PUBLIC OIL AND GAS COMPANIES.

265

MMTOE — NEW ANNUAL OIL PRODUCTION RECORD ACHIEVED IN 2016



Rosneft has also retained its leading position among the world's public companies in terms of proven liquid hydrocarbon reserves (33,977 mboe[16] in 2016) and increased its hydrocarbon reserve life under the SEC classification to 19.9 years.

Rosneft is a global energy company with a diversified portfolio comprised of Russia-based core assets and other assets in frontier regions across the globe, including Venezuela, Cuba, Canada, the US, Brazil, Norway, Germany, Italy, Egypt, Mozambique, Mongolia, China, Vietnam, Indonesia, Myanmar, Armenia, Georgia, Turkmenistan, Kyrgyzstan and Belarus.

Rosneft's core businesses include onshore and offshore hydrocarbon prospecting, exploration and development, oil, gas and condensate production and refining, and the marketing of oil, gas and refined products within and outside Russia.

At the end of 2016, Rosneft's largest shareholder was Rosneftegaz (50.00000001%), a wholly-owned state company. BP RIL and QHG Shares Pte. Ltd. hold 19.75% and 19.5%, respectively, and one share is held by the state, as represented by the Federal Agency for State Property Management. The remaining stock is in free float.

16. Total hydrocarbon reserves stood at 37,772 mboe (5,111 mtoe) at 31 December 2016 as per the SEC classification, including Bashneft's assets.

KEY ACHIEVEMENTS IN 2016

In 2016 Rosneft continued on the strategic path to improved operating performance. Apart from optimizing its investment portfolio, the Company not only achieved the set production targets, but also maintained its operating and capital expenditures at one of the lowest levels in the industry despite macroeconomic turbulence, volatility in energy markets and a significant increase in the fiscal burden.

With a number of new assets added to its portfolio in 2016, the Company has emerged as a stronger player on both domestic and international markets. One of them was a 50.0755% stake in Bashneft, which was acquired from the Russian Government in accordance with its Resolution of 10 October 2016.

As a result of the deal, the Company's liquid hydrocarbon production and oil refining capacity rose by 10% and 20%, respectively. The deal has also provided significant synergies, including the following:

- Optimization of mutual oil supplies, transportation and logistics costs
- Reduced drilling costs
- Joint use of production assets infrastructure, advanced technologies and know-how
- Integrating the acquired assets into Rosneft's operations is one of the key priorities set for 2017 and will be conducted in strict compliance with current Russian law.

Integration of Bashneft's assets into Rosneft's operations is one of the key priorities set for 2017 and is conducted in strict compliance with current Russian law.

Hydrocarbon production

In 2016 the Company's average daily production of hydrocarbons rose to 5.37 mboe, hitting a new record of 5.83 mboe in the fourth quarter. The growth was driven by the following factors:

- Integration of Bashneft's assets in October 2016
- Commissioning of production assets at the East Messoyakhskoe field
- Comprehensive testing of oil production, treatment and transport facilities at the Suzun field
- Consistent improvements at Yuganskneftegaz, RN-Uvatneftegaz, Severnaya Neft, Samaraneftegaz and other assets by stepping up production drilling, leveraging advanced technologies and bringing new fields on stream in 2015.

Offshore prospecting

The Company finished the 2016 field season by completing an extensive offshore prospecting program and achieving more than twice the performance required by the license. Rosneft conducted 2D and 3D seismic surveys in the Barents, Pechora, Kara, Okhotsk, East Siberian, Chukchi and Laptev seas in 2016.

New fields. Onshore prospecting

Exploration activities in 2016 resulted in the discovery of 127 new deposits and 13 new fields. The largest discoveries were the Nertsetinskoe field (Nenets Autonomous District) holding reserves at 21.4 mmtoe, and the Verkhnecheirskoe field (Irkutsk Region) with reserves over 60 mmtoe.

All work was completed to the highest standards, with 85 exploration wells tested and 222,000 meters drilled (including side-tracking). The success rate of exploration drilling was 79%. The Company acquired 2,800 km of 2D seismic (up 27% year on year) and 7,900 km^2 of 3D seismic (up 29% year on year).

Oilfield services

The Company is strongly focused on developing its oilfield services (OFS) business. Owing to steady growth of in-house oilfield services, it maintains the lowest level of lifting costs in the industry. Over 2016, Rosneft continued to grow its OFS: 15 heavy drilling rigs (BU 5000/320) were purchased during the year, with the active rig count at the end of the year rising to 280, up 26% from 2015.

Gas production

In 2016 the Company produced 67.1 bcm of gas, up 7.3% from the previous year. The growth was mainly driven by the following factors:

- Commissioning of the second phase of an integrated gas and condensate treatment plant at the Novy Urengoy field developed by Rospan (Q4 2015)
- Launch of three wells at the northern tip of the Chayvo field, off Sakhalin island (end of 2015 and 2016)
- Putting into operation a gas treatment plant at RN-Purneftegaz's Barsukovskoye field (December 2015)
- Scheduled infrastructure expansions to support the development of Sibneftegaz's Khadyryakhinskoye field.

19.9

YEARS – PROVEN hydrocarbon reserves under the SEC classification

Oil refining and petrochemical production

Rosneft is the largest domestic oil refiner. At the end of 2016, the Company owned 13 major refineries, three petrochemical plants and four gas processing plants in Russia[17]. The cumulative output of Russia-based assets rose from 84.7 mmt in 2015 to 87.5 mmt in 2016. As a result of performance improvements and optimization efforts at domestic refineries, the yield of light products increased by 1.3 p.p to 56.6% in 2016 and the conversion rate rose by 5.5 p.p. from a year ago.

The Company made progress towards upgrading its domestic refining capacity. The construction of fluid-catalytic cracking (FCC) and methyl tertiarybutyl ether (MTBE) plants was completed at the Kuibyshev refinery in 2016. With the new plants put on stream, the refinery will be able to meet the demand for high-octane gasoline blending components by producing them in-house and to increase the output of quality motor fuels. Other newly commissioned facilities include a catalyst regeneration unit at the Novokuybyshevsk catalyst plant and a pressure swing adsorption unit at the Syzran refinery.

MERGER OF TARGIN OILFIELD SERVICES HOLDING COMPANY

The acquisition of Targin, a large oilfield services holding company, has contributed greatly to the development of Rosneft's OFS business segment. The acquired company is principally engaged in well drilling, maintenance and workover activities as well as in the design, manufacture and upgrading of oilfield equipment and the provision of transportation and logistics services.

As a result of the deal, the Company's rig fleet rose by 19% and the number of in-house maintenance teams increased by 30%. The overall share of in-house drilling and maintenance services soared to 60% and 40%, respectively. With newly acquired OFS assets, Rosneft will be in the position to achieve performance improvements at Bashneft's upstream assets, thus increasing the synergies from its investment.

Oil supplies

Rosneft continued to diversify supplies between the western and eastern routes, with eastbound supplies rising to 43.1 mmt in 2016.

The Company made its first-ever gasoline cargo delivery to the Asia-Pacific region. The cargo was shipped to Indonesian stated-owned oil and gas corporation Pertamina under a contract signed in June 2016. Rosneft also agreed with China to annually export additional 3 mmt of oil via Kazakhstan, with the relevant agreement extended to 2019-23.

The Company continues to build on its ties with key partners by developing cooperation in the area of oil supplies. In 2016 a new contract was signed with JX Nippon Oil & Energy Corporation to supply 1.1 mmt of straight-rub gasoline over the coming year.

To advance relations with its key partners, the Company signed contracts for oil supplies in 2017, including 10.2 mmt to Belarus, 7.3 mmt to Germany, 15.8 mmt to the Czech Republic and 2.7 mmt to Poland.

Retail sales

Rosneft's retail network is the biggest in Russia. Apart from 66 Russian regions, the Company has a presence in Abkhazia, Belarus and Kyrgyzstan.

At 31 December 2016, the Company's retail network consisted of 2,962 own and leased assets. The Company's multi-service filling stations (both owned and leased) include a total of 1,890 convenience stores, 925 cafés and 174 car washes; 80 stations provide minor repair and maintenance services.

The main focus in 2016 was on operational efficiency. The Company has been taking orderly steps to standardize and streamline existing business processes, improve employee competencies, reduce costs and optimize regional business. Most of local retail entities were consolidated to form the optimal management structure.

66

RUSSIAN REGIONS,
Abkhazia, Belarus, Kyrgyzstan –
Rosneft's retail network

17. Including Bashneft's assets and the stake in Slavneft-YaNOS.

To develop its retail business, the Company successfully completed a number of initiatives, including the following:

- Family Team, a special customer loyalty program introduced in 26 Russian regions for more than 2.8 million active members

- BP Club, a program launched at BP-branded multi-fuel stations in all regions of operation, drawing over 250,000 customers in the first week after its launch

- First five coffee shops under the Italian brand A-Café were opened at Rosneft-branded filling stations in Moscow Region in pursuance of a strategy to promote related goods and services. In 2017, the Company plans to open more cafés under the same brand and expand cooperation with Autogrill.

Plans for 2017

In 2017 Rosneft will continue on the strategic path to improved operating performance. One of the priority tasks is to complete the effective integration of Bashneft's assets into Rosneft's perimeter and capitalize on synergies of the combined operation. The investment program is structured to allow for the scheduled introduction of high-performing projects in the exploration, production, refining and petrochemical segments as well as for meeting obligations under long-term supply contracts and achieving an increased conversion ratio and a higher yield of light products. As a fast-growing player with capital-intensive projects handled jointly with other industry leaders, the Company will be able to create new jobs and bring more revenue to the government budget. Maximizing Rosneft's shareholder value will help to raise the investment attractiveness of domestic assets and boost the country's GDP growth.

Growing the Company's refining footprint in Asia Pacific and Western Europe

In 2016 Rosneft made great headway in expanding access to oil refining markets in Asia Pacific and Western Europe.

Acquiring a stake in Essar Oil Limited, owner of the Vadinar refinery in India

In October 2016, the Company inked a deal to acquire a 49% equity stake in Essar Oil Limited. Once the deal is completed, Rosneft will become a part-owner of the Vadinar refinery (capacity 20 mmt, conversion ratio over 95%). Essar Oil Limited also owns a large local network of more than 3,000 filling stations under the Essar brand. The deal is set to create unique synergies for both existing assets and future projects, and open up new horizons for expanding supplies to other markets in the Asia-Pacific region, such as Indonesia, Vietnam, Philippines and Australia.

Increasing stakes in three German refineries

In 2016 Rosneft closed a deal with BP Plc to increase its stakes and become a direct shareholder of major refineries. The deal allowed the Company to gain control over more than 12% of Germany's oil refining market with annual capacity of 12.5 mmt, and made it the third-largest oil refiner in Germany. Rosneft embarked on developing its own business in Germany and created a new subsidiary, Rosneft Deutschland. Drawing on its logistics advantages, Rosneft will be able to effectively pursue its own operations in Germany, while access to end consumers will help to maximize refining margins of its own products.

Establishing a joint venture to design and build a refinery in Indonesia

In October 2016, the Company signed an agreement with PT Pertamina, Indonesia's leading oil and gas company, to establish a joint venture to design and build a refinery in Tuban, Java Island. The project will be delivered using innovative technologies and environmentally-friendly equipment in order to achieve reduced carbon footprint through improved energy efficiency and lower carbon emissions. As part of preliminary work on the project, Rosneft assessed the potential impact on the local community and made a number of strategic decisions to minimize environmental and social risks. With a view to preserving the island's unique natural habitat, the Company plans to engage independent experts to conduct a comprehensive assessment of the project's environmental impact.

87.5

MMT –
the cumulative output of the Company's Russian-based oil refineries

OFFSHORE ACTIVITIES

Offshore exploration and production activities are high on the Company's strategic agenda, as they are instrumental for the future of the entire oil and gas industry.

Despite very challenging market conditions, Rosneft continues to advance its offshore projects in accordance with current license obligations, both within and outside Russia.

Rosneft's offshore license blocks

Domestic offshore projects

New license blocks

In 2016 Rosneft obtained three exploration and production licenses for the Gusinozemelsky block in the Barents Sea, the Central Tatarsky block in the Sea of Japan, and the Bogatinsky block in the Sea of Okhotsk. The licenses are issued for a period of 30 years, provided that the holder conducts an exploration and appraisal program involving 2D and 3D seismic surveys and exploration wells.

Northern tip of the Chayvo field

The fourth and fifth oil wells (NC-4 and NC-5) reaching depths of 10,500 and 11,200 meters were put on stream ahead of schedule at the northern tip of the Chayvo field in 2016. All drilling activities were accomplished in-house. The cumulative flow rate from the five wells was 6,200 tonnes per day on average, with the 2016 actual production totaling 2.3 mmt of oil. All wells at the field's northern tip have a unique configuration that deviates significantly from vertical. The work program was conducted using innovative drilling and production technologies that helped to reduce blowouts and maximize flow rates.

Lebedinskoye field

Two horizontal wells were drilled and put on stream in 2016 at the Lebedinskoye field in the Sea of Okhotsk under the field's pilot development program. The total initial flow from the wells exceeded 750 tonnes per day. A 2,000-m horizontal well with an initial flow rate over 400 tonnes per day was put into production in January 2017. The total length of the three wells is more than 5,000 meters. The Company's drilling teams leveraged a number of advanced technologies (including reservoir-mapping-while-drilling) that helped to optimize the entry point into the target reservoir section, identify higher quality reservoir sections and fine-tune reservoir development.

Joint projects with strategic partners

Sakhalin-1, a project handled by an international consortium consisting of ExxonMobil, SODECO, ONGC Videsh Ltd and Rosneft, was successfully continued in 2016. The project includes three fields off the north-western coast of Sakhalin Island (Chayvo, Odoptu and Arkutun-Dagi). The project's total production in 2016 exceeded 9 mmt. Development is conducted using innovate technologies and techniques. Production at the Odoptu field was performed with extended-reach horizontal wells drilled from an onshore site; at the Chayvo field – with record-length wells drilled from an onshore site and from an offshore platform (Orlan); and at Arkutun-Dagi – from Berkut, the world's biggest drilling platform.

International offshore projects in frontier regions

Vietnam

Rosneft's operations in the Socialist Republic of Vietnam include a joint gas and condensate production project and a number of exploration projects. The Company drilled two exploration wells off the coast of Vietnam in 2016, for the first time acting as an operator of a drilling project in international waters. This signals that the Company has the required competence to handle technically complex offshore drilling programs. One of the wells discovered 3.4 bcm of commercially extractable gas reserves.

As part of its 2016 work program, the Company also completed a broadband 3D seismic survey to enhance ongoing production recovery and explore the potential of deeper prospects.

Rosneft also has a stake in the Nam Con Son offshore pipeline, which transports gas and condensate from offshore sites in the Nam Con Son basin. A total of 7 bcm of gas were delivered through the pipeline in 2016.

In recognition of its achievements in 2016, Rosneft was presented with the Operator of the Year award by Vietnam's Ministry of Industry and Trade.

Egypt

- On 10 December 2016, Rosneft signed a binding deal with ENI to acquire a 35% stake in the Shorouk concession for the giant Zohr gas field (including 5% as an option). The field is located in the southern part of the Mediterranean Sea, 190 km off the coast of Egypt. The field's in-place reserves are estimated at over 850 bcm, a third of Egypt's total gas reserves. As a member of the Shorouk concession, the Company will be able to:

- Gain strategic market access as a starting point for expansion into the region
- Participate in the development of one of the largest discoveries in the region
- Learn to develop carbonate reservoirs and deploy the accumulated experience in its Black Sea projects

Venezuela

Building on their strategic partnership, Rosneft and Petroleos de Venesuela, S.A. (PDVSA) signed a framework agreement on a joint venture to implement a major project involving the production, treatment and sale of natural gas at the offshore fields Patao, Mejillones and potentially Rio Caribe in Venezuela. Company experts are now working closely with their Venezuelan counterparts to structure the project and agree on its terms. Rosneft will act as the project's operator.

The two companies also continued a joint project to provide training for Venezuelan young professionals in Gubkin Russian State University of Oil and Gas, Rosneft's partner university. The training is in the three core fields (exploration and production; processing and improvement of crude oil; and transport and logistics).

Cuba

Rosneft and Union CubaPetroleo (CUPET), the state-run oil company of the Republic of Cuba, entered into a brownfield cooperation contract in 2016 for enhancing oil production at Varadero – East Central Block. In accordance with the document, the parties shall jointly assess the current status of the field's development and operation to identify opportunities for enhancing well stock efficiency and conduct well-work activities targeting enhanced oil recovery. The Rosneft-CUPET joint team completed the reinterpretation and reprocessing of 2D seismic data in 2016, while the remaining work under the contract is scheduled for completion in 2017.

EXPANDING PARTNERSHIP WITH INTERNATIONAL PLAYERS IN RUSSIA

Ermak Neftegaz

Rosneft and BP set up a new joint venture, Ermak Negtegaz Limited Liability Company, in 2016. This move is a further step in the consolidation of long-lasting strategic partnership between the two companies. The joint venture will focus on exploring two Areas of Mutual Interest (AMIs) in the West Siberian and Yenisey-Khatanga basins covering a combined area of about 260,000 sq. km. Rosneft will have a 51% stake in the new JV, with the remaining 49% held by BP. In the winter of 2016-17, Ermak Neftegaz sank one well (Bkl-21) to continue the appraisal of the Baikalovskoye field in the Yenisey-Khatanga basin and commenced a seismic survey at the West Yarudeisky site. The joint venture will also conduct exploration at the Kheiginsky and Anomalny sites in the West Siberian AMI. BP will contribute up to US$300 million to finance the JV's exploration activities, while Rosneft will provide its licenses and production facilities in the West Siberian and Yenisey-Khatanga basins.

Vankor field

The Company completed a project to establish a unique international energy hub in the Vankor cluster on a tight schedule. Rosneft also closed a deal to sell a 23.9% stake in Vankorneft to a consortium of Indian companies consisting of Oil India Limited, Indian Oil Corporation Limited and Bharat PetroResources Limited, and consummated two deals whereby ONGC Videsh Limited acquired a total of 26% in Vankorneft.

Taas-Yuriakh Neftegazodobycha

Rosneft finalized a procedure to establish an international consortium based on Taas-Yuriakh Neftegazodobycha by closing a deal to sell a 29.9% stake to a consortium of Indian companies consisting of Oil India Limited, Indian Oil Corporation Limited and Bharat PetroResources Limited. The Company will retain its 50.1% stake in Taas-Yuriakh Neftegazodobycha.

Verkhnechonskneftegaz

Rosneft inked a deal with Beijing Gas Group Company Limited to sell a 20% stake in Verkhnechonskneftegaz. The project is estimated at US$3.2 per barrel of hydrocarbon reserves (2P reserves based on the PRMS methodology), thus reflecting a high potential of the Verkhnechonskneftegaz's resource base. As a result of the deal, the Chinese company will obtain a stake in one of East Siberia's largest producing fields with the developed infrastructure and access to the ESPO pipeline, while Rosneft will gain access to China's gas market, including end consumers, through swap gas supplies. The deal will also allow the Company to reach the potential of the Verkhechonskoye field, including natural gas production, and to foster strategic partnership with one of China's major natural gas distributors.

Rosneft completed a project to establish a unique international energy hub in the Vankor cluster on a tight schedule.

ARCTIC EXPEDITIONS

The Company's Arctic Research and Design Center for Offshore Development (the "ARC"), established in 2011, conducts supporting research and provides expertise in the environmental and industrial safety of offshore projects. ARC's activities include performing metocean and sea-ice observations, building databases, drawing up dessign specifications for offshore facilities and developing innovative solutions for monitoring the Arctic environment, including sea ice and drifting icebergs.

Over the past year, the ARC carried out sea-ice and metocean surveys at license areas in the Barents Sea, the Kara Sea, the Laptev Sea and the East Siberian Sea. As part of its 2016 project work, the Center launched several widescale expeditions, including Kara-Summer 2016 and Chukotka-Summer 2016, and organized a year-round environmental monitoring in the Khatanga Bay.

Kara-Summer 2016

Kara-Summer 2016, organized in cooperation with the Arctic Scientific Center and the Arctic and Antarctic Research Institute, was the largest Arctic expedition in recent decades. The expedition conducted surveys at 10 license areas in the Barents Sea, the Kara Sea and the Laptev Sea to collect metocean, sea-ice and glacier data required to assess the impact of adverse environmental conditions on the development of the Company's license areas off the Arctic coast. The program also included routine maintenance on existing infrastructure (automatic weather and seismic stations, autonomous semi-submersible buoy stations, etc.) and component testing of the sea-ice management system.

For the first time in Russia, a unique technology to externally change iceberg trajectory was tested during the expedition. A total of 18 experimental towings of icebergs of various shape and size were conducted in different weather conditions. Insights gained from these experiments will help to protect subsea infrastructure from iceberg impact in the course of commercial development in the Arctic.

Metocean, sea-ice and glacier data are collected during the Arctic expeditions at the offshore license areas.

The expedition also performed extensive biological observations, including target monitoring on the population of polar bears, walruses and benthic species, as well as round-the-clock ship observations of marine mammals and birds en route from the Barents Sea to the Chukchi Sea.

ARC's 13th and 14th expeditions

Interdisciplinary expeditions and fieldwork in the Laptev Sea, the East Siberian Sea, the Chukchi Sea and the Kara Sea were completed in 2016. The expeditions collected valuable geophysical data to trace the seabed outcrops of target horizons. The acquired geochemical samples of seabed sediments and near-bed waters will be used for predicting marine hydrocarbon seeps and for ranking stratigraphic units to identify future exploration focus areas. The expedition in the Kara Sea also focused on environmental studies, with baseline data collected on the north-eastern part of the Kara Sea.

Chukotka-Summer 2016

The Company completed a research expedition to the Chukchi Sea in 2016 to learn more about the local climate and geology. Collected scientific data helped to assess the potential effects of environmental factors on the development of the Company's license areas. Biological data acquired from marine mammal and bird observations helped to significantly broaden the knowledge about the Arctic fauna.

18

EXPERIMENTAL TOWINGS
of icebergs were conducted during
the expedition Kara-Summer 2016

Year-round research base in the Arctic

In 2016 Rosneft established its first year-round scientific research base in the Arctic region, located on the Khara-Tumus peninsula in the Khatanga Bay of the Laptev Sea.

The Company organized the year-round monitoring of meteorological, actinometric, hydrological and sea-ice conditions of the Khatanga Bay to ensure safe operations at its license areas. The base will also be used to conduct helicopter ice reconnaissances over the Company's license areas and will serve as a testing ground for new Arctic technologies and materials.

A strong research focus is placed on environmental protection activities aimed at conserving biodiversity, preventing adverse environmental impact and ensuring the safety of local personnel. Biologists conduct environmental studies under environmental monitoring and local biodiversity conservation programs.

IMPORT SUBSTITUTION AND LOCALIZATION

Rosneft has made progress in establishing local production of equipment, which is currently imported from abroad. The Company strives to reduce dependence on imports and develop its own manufacturing and engineering capabilities as well as those of the wider sector.

In September 2016, Rosneft updated its mid-term and long-term plans included in the Import Substitution and Localization Program. Import substitution is achieved through the following two strategic actions:

- Substitution of imported equipment available on the Russian market
- Establishment of local production and maintenance of equipment, which is not currently manufactured in Russia and which is needed to pursue new opportunities and maintain sustainable operations

The Company undertook a number of initiatives in 2016 to promote preferential procurement in support of local manufacturers. As a result, the share of imports in total supplies to Rosneft declined markedly in 2016.

Zvezda shipbuilding complex

As part of its Import Substitution and Localization Program, the Company continued involvement in a major initiative to establish an industrial cluster in the Russian Far East. Zvezda, a shipbuilding complex to be constructed on the premises of the Far Eastern Shipbuilding and Ship Repair Center, is a unique project in modern Russia that is set to give a boost to the domestic civil shipbuilding industry. Zvezda will be Russia's first shipyard geared for building customized vessels, large offshore modules, platforms and rigs to be used for offshore oil and gas development in climatically challenging regions.

DEVELOPMENT OF IMPORT SUBSTITUTE SOFTWARE USING THE RESOURCES OF THE CORPORATE RESEARCH AND DESIGN COMPLEX

Initiatives pursued by the Company's leading scientific research and design institutes to develop and deploy competitive proprietary software enable it to build in-house capabilities in geological and hydrodynamic modeling and address information security issues under import substitution programs.

In an effort to replace foreign software products with local counterparts, the Company launched a project in 2016 to develop its own geological modeling suite. The Company built the first version of the modeling suite and constructed 3D geological models, which were approved by the Central Commission for Development of Mineral Resources of Russian's Federal Agency for Subsurface Use. The Company also continued the roll-out of proprietary hydrodynamic modeling suite (RN-KIM), with over 45% models built using this tool in 2016.

The Company continued to work closely with with the Russian Government, the Ministry of Industry and Trade, the Ministry of Energy, the Ministry for Economic Development and other federal executive bodies to address import substitution issues. It is represented in various intergovernmental task forces and research groups established by federal executive bodies to consider topical issues, such as reducing the domestic energy sector's dependence on imported equipment, components and spare parts, as well as on foreign services and software. Rosneft is also involved actively in public discussions of draft laws and regulations aimed at facilitating import substitution.

The 2016 work program included ongoing development of production sites, setting up shipbuilding enterprises and implementing innovative technologies required to support the operations of the complex.

Capacity utilization

Pursuant to an exclusive agreement to place all new shipbuilding orders with Zvezda shipbuilding complex, Rosneft provided it with a strong pipeline of orders to design, build and deliver four multi-purpose supply vessels of reinforced ice-class (Icebreaker 7) under contracts signed in 2015.

In 2016 Rosnefteflot signed a contract for the supply of five Aframax tankers, innovative vessels with gas-powered engines that meet high environmental standards and new rules to limit the emissions of sulfur oxides and nitrous oxides in the Baltic and North Seas that will come into effect in 2020.

Attracting international partners

Rosneft runs localization projects with international equipment manufacturers to provide Zvezda with innovative solutions, which are first of their kind in the Russian shipbuilding industry.

In 2016 the Company continued to team up with General Electric, its strategic partner. The partners inked a number of deals to increase local technology content in Russia's shipbuilding sector. These include the construction of local manufacturing facilities for steerable thrusters (up to 15 MW), marine electronics and wellhead fittings. The two companies are also moving on with their project to set up local production of dynamic positioning systems for marine vessels to ensure that Zvezda is geared up with world-class equipment and technologies.

Zvezda Marine Technology, a joint venture of the Damen group, Rosneft and Nord Marine Engineering, was established in August 2016. The JV will perform contract work involving the design and building of approved service vessels and ice-class cargo vessels (with ice class Arc 4 and above) at Zvezda shipbuilding complex.

On the sidelines of the 20th International Economic Forum in St. Petersburg, Rosneft and Fincantieri S.p.A. signed a heads of agreement for setting up a joint venture to design a new type of vessels to be built at Zvezda shipbuilding complex. The partners will also explore the possibilities for developing professional competencies that are required to manage this project at a shipbuilding stage. Teaming up with Fincantieri S.p.A. will allow Zdezda to increase its technical capabilities and lay the groundwork for creating innovative products.

Zvezda, a shipbuilding complex to be constructed on the premises of the Far Eastern Shipbuilding and Ship Repair Center, is a unique project in modern Russia.

At the 2016 Eastern Economic Forum, Rosneft and Hyundai Heavy Industries signed a heads of agreement to establish an Engineering and Project Management Center in the Russian shipbuilding sector. Cooperation with the Korean partner will help to embrace the world's cutting-edge shipbuilding technologies (eco-freindly Aframax gas-powered tankers, etc.).

Other import substitution projects

With a view to advancing its import substitution agenda in 2016, Rosneft signed a number of agreements with international and Russian partners, including the following:

- Agreement with Schneider Electric, a global specialist in energy management and automation, to deploy a set of technical solutions across the Company's production assets in order to lower energy consumption and achieve cost savings
- Agreement with KAMAZ to meet Rosneft's transport needs, including by delivering 18 vehicle types and providing repair and maintenance services, personnel training and bespoke modifications; as part of the first stage of the agreement, Kamaz is expected to deliver over 2,000 vehicles during 2016-18
- Memorandum with Tubular Metallurgical Company (TMK), a leading global manufacturer and supplier of steel pipes for the oil and gas industry, on import substitution partnership involving pipe supplies for the Company's offshore projects and the manufacture of new products on special order.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE AT ROSNEFT AIMED AT OBSERVING ALL RIGHTS OF SHAREHOLDERS IN ACCORDANCE WITH THE REQUIREMENTS OF RUSSIAN AND INTERNATIONAL LEGISLATION, RECOMMENDATIONS OF THE BANK OF RUSSIA'S CORPORATE GOVERNANCE CODE AND COMPANY'S INTERNAL DOCUMENTS.

Corporate governance at Rosneft represents a comprehensive framework involving the entire range of relations among executive bodies, the Board of Directors, shareholders and other stakeholders that is aimed at:

- Observing the rights of shareholders and investors
- Increasing the Company's investment attractiveness
- Creating effective risk assessment mechanisms that can have an impact on the Company's shareholder value
- Ensuring the efficient use and safety of funds contributed by shareholders and investors

The corporate governance framework has been designed to:

- Determine the roles, and distribute the rights and obligations, of each party to corporate governance – shareholders, the Board of Directors, management, and external stakeholders – in order to increase the Company's long-term shareholder value
- Establish decision-making policies and procedures that will help the Company to achieve its goals and control its operations, as well as to build up trust on the part of all parties to corporate governance.

Rosneft's Code of Corporate Governance (the "Code") is a key document that sets out principles underlying the corporate governance framework and reflects the Company's development.

The corporate governance principles embedded in the Company's Code are aligned with those underlying the Code of Corporate Governance adopted by the Bank of Russia, as well as those of the Organization for Economic Cooperation and Development:

1. Ensure that shareholder rights are exercised and protected
2. Strategic management is carried out by an effective and professional Board of Directors that duly supervises the performance of executive bodies and, together with these bodies, is accountable to shareholders
3. Stakeholder rights stipulated by law are recognized and protected; the Company actively engages with its stakeholders in order to improve its financial standing, comply with corporate social responsibility standards, and create new jobs
4. Build an effective internal control and risk management system that provides reasonable assurance that the Company's goals will be met
5. Ensure timely and accurate disclosures on all material issues, including financial position, results of operations, ownership, management of the Company, significant corporate actions, etc.

The General Shareholders' Meeting is Rosneft's supreme governing body, whose authority includes the dominant issues for the Company and its operations. The Board of Directors is the strategic governance body responsible for overall management of the Company. It is accountable to the General Shareholders' Meeting and acts in the interests of all shareholders. The Chief Executive Officer, as the Company's sole executive body, and the Management Board, as the Company's collective executive body, are responsible for the day-to-day management of the Company. Executive management bodies report to the General Shareholders' Meeting and the Board of Directors.

The review of compliance with the recommendations of the Bank of Russia's Corporate Governance Code found that the Company complies with most of the recommendations. In order to implement the remaining recommendations of the Bank of Russia's Code, the Board of Directors approved an action plan (road map) in 2015. In 2016 the Company continued the work its started in 2015 to put the road map into action.

The following steps were taken during the 2015-16 annual campaigns:

- Shareholders were granted access to materials for the Annual General Shareholders' Meeting 30 days in advance of the meeting, with such materials being available for review from the same date either on the Company premises or on the premises of Reestr-RN, Rosneft's registrar, or at shareholder centers[18]
- The date of compiling the list of individuals authorized to participate in the Annual General Shareholders' Meeting in 2016 was disclosed by the Company seven days in advance (during the 2015 annual campaign – 11 days in advance)
- Steps were taken to ensure that all shareholders can take part in the meeting: travel instructions and a sample power of attorney have been posted on the Company's website
- Maximum available information was provided to shareholders – materials for the General Shareholders' Meeting contain (I) details of the individuals who have proposed items for the Meeting agenda or candidates for nomination to management and control bodies, (II) the opinion of the Company's Board of Directors on the agenda of the meeting (an extract from the Minutes of the Board of Directors), and (III) details of the individuals interested in concluding the transactions proposed for consideration by the meeting, and reasons for such interest on their part.

This practice was formalized in amendments to the Charter and the Regulation on the General Shareholders' Meeting of Rosneft Oil Company, approved by the General Shareholders' Meeting on 15 June 2016.

In addition to provisions that comply with the recommendations of the Bank of Russia's Code, the Charter and other internal regulations were amended in line with newly enacted changes to Russian laws, including those arising from the status of a public company. The official name of the Company now reflects its public company status.

In order to implement the road map and comply with the recommendations of the Bank of Russia's Code, the Board of Directors:

- Considered the assessments made to measure the effectiveness of the Risk Management and Internal Control System, in internal audit performance reports
- Approved the compliance road map for 2016-19
- Considers, on a quarterly basis, the results of operating the Security Hotline
- Considered information on the Company' key risks (at the meeting of the Audit Committee)

Actions required by the road map and the Bank of Russia's Code include annual effectiveness self-assessment to be completed by the Board of Directors, its committees and members, which is a common corporate governance practice whose purpose is to enhance effectiveness of the Board of Directors by identifying areas that require improvement.

The first self-assessment exercise at Rosneft focused at the performance of the Board of Directors in the 2014-15 corporate year.

Rosneft's Human Resources and Remuneration Committee developed an Effectiveness Self-Assessment Methodology for the Board of Directors in June 2016, which sets out the objectives, principles, methods, and procedure for in assessing the performance of the Board of Directors, its committees and members.

18. Federal Law No.208-FZ, On Joint-Stock Companies, of 26 December 1995, establishes that materials for an Annual General Shareholders' Meeting shall be provided at least 20 days in advance of the meeting.

The Human Resources and Remuneration Committee used this Methodology to update the questionnaire for the 2015-16 self-assessment, in which the list of questions covers the most important areas of the Board's performance.

The self-assessment results were considered by the Human Resources and Remuneration Committee and the Board in December 2016.

CORPORATE GOVERNANCE DEVELOPMENT

The development of corporate governance will continue in the Company in the coming years along the lines set out, first and foremost, in the Bank of Russia's Corporate Governance Code. The most important of them for the Company are listed below:

1. Establish a system that will make it possible for shareholders to get a notice of a meeting, have access to materials for a meeting, request and receive documents, and vote electronically on agenda items.
2. Include in the Company' internal regulations the obligations (currently being implemented) to disclose additional information beyond that required by applicable law.
3. Approve the Company' Compliance Policy.
4. Arrange for an independent assessment of the performance of the Board of Directors.
5. Approve an internal regulation to spell out the Company's policy concerning its Directors having ownership of shares in Rosneft and shares/equity interests in legal entities under the Company's control.

BOARD OF DIRECTORS

For details of experience and professional level of the members of the Board of Directors, see Sustainability Reports for prior periods.

An independence review was carried out on Matthias Warnig, currently a Director, in December 2016, to ascertain his compliance with the independence criteria set by the Moscow Exchange. Based on the review findings, Matthias Warnig was recognized as an independent Director by decision of the Board of Directors, despite meeting formal criteria of affiliation with government and Company counterparties. Given Matthias Warnig's professional experience and business reputation, such affiliation does not affect his ability to exercise independent, fair and honest judgment as a member of the Board of Directors (the Board's decision, including the statement of reasons, is disclosed on Rosneft's official website, section "Corporate Governance. Board of Directors").

The Board of Directors acted on the following matters in 2016 to support the Company's sustainable development:

- Updated the Rosneft Long-term Development Program and considered the results of auditing Program implementation in 2015
- Approved amendments to the following internal regulations:
  - The Policy on Internal Audit
  - The Dividend Policy
- Considered and approved the following programs and reports:
  - The 2016-20 Innovative Development Program, with potential extension through 2030, and the 2015-19 Innovative Development Program progress report for 2015
  - The 2017-21 Energy Saving Program and the 2015-2019 Energy Saving Program progress report for 2015
  - The 2016-19 Overall Corporate Compliance Program
  - Progress report on actions under the road map to implement key provisions of the Bank of Russia's Corporate Governance Code at the Company; deadlines for certain road map actions have been adjusted due to external circumstances
  - Report on the implementation of professional standards across Rosneft and Group entities in 2016
  - Report on Rosneft's progress in industrial and occupational health and safety for 10 months of 2016
  - Report on the Company's compliance with the law on preventing the abuse of insider information and market manipulation, for 2015 and 6 months of 2016
  - Internal Audit performance reports for 2015 and 6 months of 2016
- Considered the following issues pertaining to motivation:
  - Approved the results of KPI fulfillment by top managers and their annual remuneration for 2015
  - Approved top managers' KPIs for 2016
- Carried out an annual self-assessment of the Board of Director's performance in 2015-16 corporate year and considered the results.
- Took a number of decisions in execution of Russian Government directives.

In addition, members of the Board of Directors were involved in the analysis of risks that threaten the achievement of the Company's long-term goals.

Rosneft acknowledges the heavy burden of responsibility that lies with the members of the Board of Directors and executive bodies due to the large scale of projects and transactions it is involved in, and takes, at its own expense, liability insurance for members of the Board of Directors and Company management.

SHAREHOLDER RELATIONS

Rosneft's corporate governance framework ensures that all rights of its shareholders are observed as required by Russian and international law, recommendations of the Bank of Russia's Corporate Governance Code, and internal regulations.

The anniversary Annual General Meeting of the Company's shareholders took place in Saint Petersburg on 15 June 2016, marking ten years since Rosneft's IPO at the Moscow Exchange and the London Stock Exchange.

Shareholders could exercise their right in the management of Rosneft by attending the Annual General Meeting personally or by sending their voting forms to the address of the Company or its registrar, Reestr-RN, or by means of e-voting (for shareholders whose shares are held by a nominee).

The option to view a live broadcast of the meeting was provided to shareholders in cities and towns where the Company operates – Gubkinskiy, Krasnodar, Moscow, Neftekumsk, Nefteyugansk, Orenburg, Samara, Tuapse, Tyumen, Usinsk, and at the Vankor field.

All shareholders were given equal opportunities to express their opinion on agenda items and to direct questions at, and receive answers from, speakers, members of, and candidates to, management and control bodies, the Chief Executive Officer, analysts and consultants. Answers to shareholders' questions were provided either during the meeting or promptly after it. Shareholders viewing the live broadcast of the meeting were also given an opportunity to ask questions.

The Minutes of, and decisions adopted by the meeting were available on Rosneft's official website, section "Investors. Information for shareholders."

In order to improve the Company's attractiveness to investors, the Board of Directors adopted, on 9 December 2016, amendments to Rosneft's Dividend Policy approved by decision of the Board of Directors on 5 June 2015. The amendments establish:

- The target level of dividend at 35% of Rosneft's net profit under IFRS (previously, 25% of net profit under IFRS)
- The target frequency of dividend payments by Rosneft to be at least twice a year (previously, once a year).

The Dividend Policy sets out the procedure to determine the part of profit to be distributed as dividend, conditions for declaring dividend, the calculation of the amount of dividend per share, and the dividend payment procedure. The Dividend Policy is publicly available on Rosneft's official website, section "Investors. Corporate documents."

The Company observes the shareholders' right to receive an equal and fair share of its profit as dividend, and allocated RUB 124.5 billion, or RUB 11.75 per outstanding share, for distribution in 2016. The approved dividend amounted to 35% the Company's net profit under IFRS. Dividends were paid to all persons listed in the registry of holders of the issuer's registered securities, except those who failed to provide their updated personal details in due time.

A massive effort was put in by the Company in 2016 to communicate to its shareholders the need to update their personal details. The information was published on Rosneft's website and those of Group entities, and appeared in corporate publications of Group entities and in mass media, such as TV, radio, newspapers, and Internet editions.

The Company also paid shareholders and heirs of deceased shareholders dividends declared but not paid for prior periods after they had updated their personal details in the shareholders' register and/or with a nominee holder.

Rosneft maintains accurate and reliable records of title to shares and ensures that shareholders are free to dispose of their shares without limitation. The shareholders' register is kept by a professional Registrar holding a perpetual license to engage in relevant professional activities. The Registrar is a reputable company that has all the requisite resources to maintain records of title to shares and ensure that shareholders may exercise rights over their shares.

For advice on exercising shareholder rights, updating personal details or dealing in own securities, shareholders may contact the head office or branches of the Registrar, transfer agent offices or shareholder centers in the regions where significant numbers of shareholders reside.

In 2016, the Company updated internal documents regulating two related processes: information disclosure (Regulation on Information Disclosure on the Securities Market) and provision of information to shareholders (Regulation on Provision of Information to the Shareholders of Rosneft), as part of enhancing its corporate governance framework.

124.5

RUB BILLION
were allocated
for dividends payment

The Company uses the following channels to maintain effective communications with shareholders and help them benefit from their rights to the greatest extent possible:

- For oral communications: a hotline maintained by the Shareholder Relations Group of the Corporate Governance Department – switchboard number: **8-800-500-11-00** (toll-free within Russia), **+7 (495) 987-30-60**
- For written communications: mailing address: **26/1 Sofiyskaya Naberezhnaya, 117997, Moscow Russia**
- For emails: **shareholders@rosneft.ru**
- For fax communications: **+7 (499) 517-86-53**

THE STATISTICS OF COMMUNICATIONS PROCESSED BY THE SHAREHOLDER RELATIONS GROUP IN 2016 ARE AS FOLLOWS:

- 4,552 phone calls
- 480 letters
- 105 emails
- 690 dividend payment requests for prior periods

Shareholder communications in 2016 most often dealt with the following matters: the procedure for voting at the Annual General Meeting, dividend payments, information on share ownership and records of title, and clarification of the procedures for buying/selling shares, and inheritance of shares.

Shareholders received from the Company answers to all questions of interest. Answers to the most frequently asked questions are available on Rosneft's official website, section "Investors. Information for shareholders."

INVESTOR RELATIONS

In 2016 Rosneft continued to work closely with institutional investors drawing on international best practices, with full transparency regarded as a number one priority.

The increasingly diversified investor base is further proof that the Company's securities are attractive to investors. Company management had around 150 individual and collective meetings with leading investment funds to discuss a broad range of topics surrounding the Company's development that are top-of-mind for the investment community, including operations, financial resource management and sustainable development.

The strategic objective to increase Rosneft's capitalization in the long term was addressed in 2016 by intensifying efforts in this area, with a focus on updated criteria of investment attractiveness, including socially responsible investing. Rosneft enhanced cooperation with the leading consulting companies, such as GES, RobecoSAM, MSCI, CDP, and ISS, which provide investors with a benchmarking analysis of industry players in terms of their sustainable development performance. In response to investor requests, the Company provided information on its volume of greenhouse gas emissions, steps to improve its energy efficiency, pipeline safety, progress with the program for utilization of associated petroleum gas, engagement with contractors and suppliers on industrial and occupational health and safety, and tackling fraud and corruption. There is a plan to enhance communications with socially responsible investors in 2017.

Rosneft maintains regular communications with the investment community by providing meaningful information and responding to information requests, including those on sustainability aspects. For detailed responses, see relevant sections of this Report.

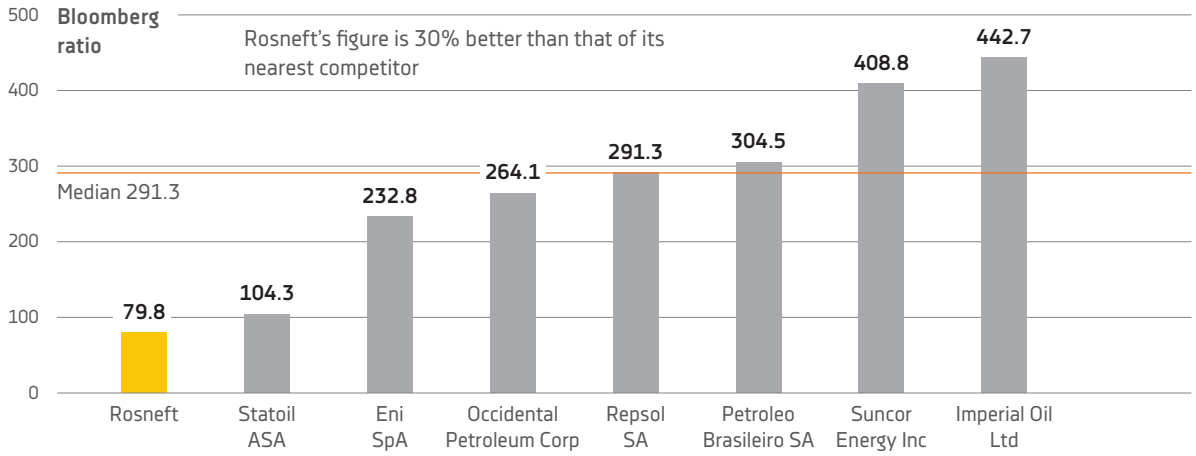
The Company holds quarterly conference calls for analysts, investors and rating agencies to discuss current financial and operating results, which are attended by its finance and operations executives. The official website provides access to relevant information about the Company and its business, including press releases, presentations, annual reports, sustainability reports, and key facts, in particular, about decisions of the Board of Directors. Public information about Rosneft's ownership structure is updated on a monthly basis. The Company makes standard quarterly disclosures of its financial results.

In July 2016, Rosneft arranged for some 50 investors and analysts from leading investment banks to visit locations of RN-Yuganskneftegaz together with members of the Company's top management team.

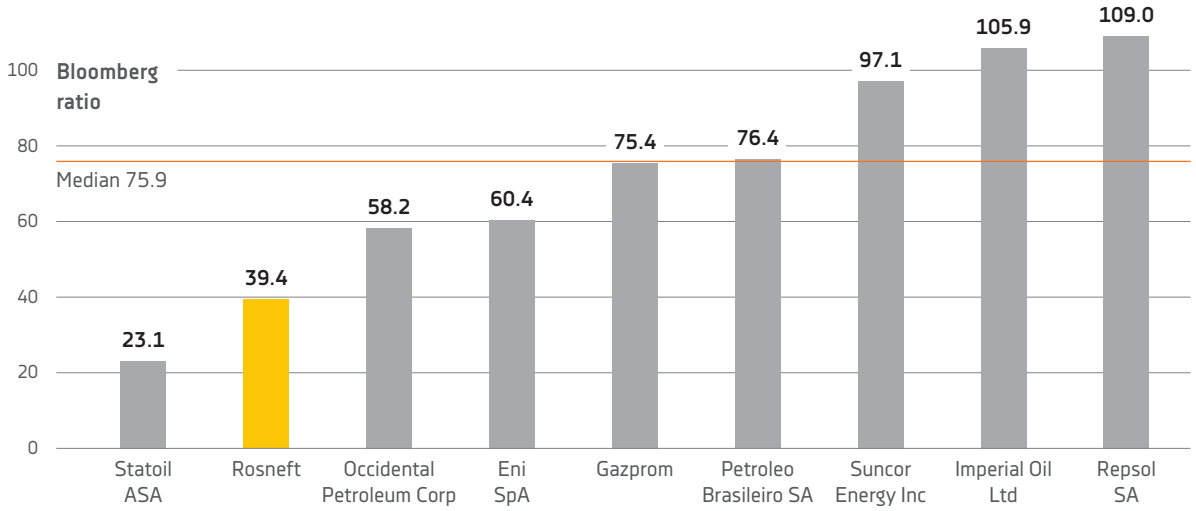
The quality and intensity of communications between Rosneft and the investment community, and an attractive investment story have continuously been the focus of its efforts, along with the implementation of the world's best practices in openness and transparency. Rosneft's 2015 Annual Report took part in the XIX Annual Report Competition held by the Moscow Exchange, and was named the winner in the category 'Best annual report in the oil & gas sector' and a winner in the category 'Best annual report among companies with the market cap above RUB 200 billion'. The Company won an award from IR Magazine Russia & CIS and was recognized the best investor relations company among Russian large-cap companies in 2016.

BENCHMARKING THE COMPANY'S SUSTAINABILITY PERFORMANCE INDICATORS (SPIS) AGAINST A PEER GROUP OF INTERNATIONAL COMPANIES, BASED ON BLOOMBERG DATA

Rosneft has the best energy consumption ratio in the peer group of international companies (the lowest energy consumption ratio (MWh) per thousand barrels of oil equivalent in 2015)[19].



Rosneft is among industry leaders in control over greenhouse gas emissions. The Company had the second best ratio of total greenhouse gas emissions per thousand barrels of oil equivalent in 2015[20].



19. Energy consumption/Hydrocarbon production: Rosneft data. Energy consumption: 150,194 million MWh (540.7 million GJ (290.1+160.0+90.6) --> ratio of 0.277778 MWh = 150,194 million MWh) (Sustainability Report 2015, page 81); Hydrocarbon production: 1,883.04 million barrels of oil equivalent ((5,159*365)/1,000 = 1,883.04) (MD&A, 12 months of 2015, page 5).
20. Total greenhouse gas emissions/Hydrocarbon production. Rosneft: Total greenhouse gas emissions: 74.1 million tons of CO2 in 2015 (Sustainability Report 2015, page 74), Hydrocarbon production: 1,883.04 million barrels of oil equivalent.

SUSTAINABILITY MANAGEMENT

THE IMPLEMENTATION OF ROSNEFT'S CODE OF BUSINESS AND CORPORATE ETHICS CONTINUED ON A LARGE SCALE.

ETHICAL MANAGEMENT FRAMEWORK

The implementation of the updated (September 2015) version of Rosneft's Code of Business and Corporate Ethics (the "Code"), which the Company launched last year, continued on a large scale in 2016. The Code asserts the commitment of Company employees to a high standard of business ethics, and includes uniform business conduct guidelines and standards for employees to follow in communication with each other, as well as with business partners and stakeholders.

The Company carried out a survey of employees of Group entities on the subject "The Code and the Values," to measure the effectiveness of Code implementation during the year. The results of the survey show that almost all employees are aware of the Code's updated version and have received their personal copy of it, and that most employees know who is their ethics champion, that is, a person whose key role is to enable the application of, and compliance with, the Code. The high level of awareness follows from the successful communication campaign supporting Code implementation, which included, inter alia, around 4,000 cascading meetings of senior management with personnel.

In addition, the Company successfully validated the methodology for running a course in the Fundamentals of Business and Corporate Ethics, held two workshops for employees of Group entities in the Moscow region and at the Company's headquarters, and conducted a dedicated practical training session on the subject "The Code and the Values" for Internal Communications staff.

The business ethics hotline continues to operate as a means of getting feedback on ethics issues. Any employee or stakeholder who has information to report on the application of, and compliance with, Rosneft's Code of Business and Corporate Ethics, can send it to code@rosneft.ru. The ethics hotline received 81 reports in 2016, which mainly concerned with compliance with labor legislation, and potential conflicts of interest. All reports were considered by respective business or functional units. There is an ongoing exchange of information with the Security Service that supervises the Company's Security Hotline.

COMPLIANCE FRAMEWORK

During the reporting period, the Company continued its efforts to strengthen and develop the compliance framework designed to ensure Rosneft's compliance with applicable laws, business ethics standards, and internal regulations.

The Company implements a set of internal regulations covering key compliance areas, including the Code of Business and Corporate Ethics, the Anti-Corruption Policy, the Anti-Fraud Policy, the Regulation on the Procedure for Verifying Information Communicated via the Security Hotline, Regulation on the Internal Investigation Procedure, Regulation on the Procedure for Carrying out Charity Activities by Rosneft and Group Entities, the Policy on the Risk Management and Internal Control System, the Internal Control Framework and the Corporate Risk Management Framework Standard. The Company reviewed its internal regulations in 2016 to make sure they are aligned with the compliance areas and the Code of Business and Corporate Ethics. The review results were used to draw up a plan for updating the current internal regulations and developing new ones.

ROSNEFT'S COMPLIANCE AREAS AS REQUIRED BY LOCAL LAWS

Anti-corruption compliance (incl. FCPA, UK Bribery Act)	Compliance in procurement	Anti-monopoly compliance (FAS)
Compliance in countering fraud	Compliance with trade sanctions	Compliance with exchange and listing requirements (LSE Ethics Code)
Compliance in industrial and occupational health and safety (HSE)	Environmental compliance (HSE)	Compliance with technical regulations and industry standards
Compliance with state secret and personal data laws	Labor compliance	Compliance with disclosure requirements and insider law
Compliance with financial reporting requirements (IFRS, RAS, etc.)	Tax compliance	Compliance with currency control and AML/CFT* regulations

Compliance areas regulated by Russian laws, which are of top priority for Rosneft (approved by the Business Ethics Council)

Compliance areas regulated by Russian laws

*Anti-money laundering and combating the financing of terrorism

Pursuant to applicable anti-corruption legislation and the Methodological Recommendations of the Federal Property Management Agency (Order No. 80 of 2 March 2016), the 2016-19 Overall Corporate Compliance Program (the "Roadmap") was put together by the Business Ethics Council in 2016 and then approved by the Board of Directors in December 2016. The Roadmap focuses on the following key areas:

- Implementing measures to manage corruption and fraud risks
- Developing a number of internal regulations, including a conflict of interest management regulation, which, once adopted, will improve the transparency over the Company's operations and the effectiveness of measures it takes to counter corruption and fraud
- Training and communication
- Monitoring and reporting

Rosneft prepared a report on the timely implementation of the 2016-17 National Anti-Corruption Plan, as required by the instruction issued by the Prime Minister of the Russian Federation to ensure the implementation of the Russian President's Decree on the 2016-17 National Anti-Corruption Plan. The report describes the set of key measures the Company has developed and is putting into place in order to observe the established anti-corruption prohibitions, restrictions and requirements, including measures to boost the effectiveness of its anti-corruption efforts, and giving the Security Service authority for overall coordination of the anti-corruption and anti-fraud processes across the Company.

Almost 700 employees of Rosneft took the on-site course on systemic approach to developing the compliance function in 2016. Distance web-based courses on the fundamentals of setting up a risk management and internal control function and on countering corruption and fraud are delivered on a regular basis.

Internal communications play a pivotal role in the development of the compliance framework. Five new issues of All about Compliance information bulletin were published in 2016, and Our News corporate publication featured articles on anti-corruption issues. In addition, the Company carried out an information campaign to embed the culture of zero tolerance to corruption and fraud among the management and employees of Rosneft and Group entities.

PREVENTION OF FRAUD AND CORRUPTION

The Company remained firmly focused throughout the reporting period on enhancing the effect of measures designed to counter corruption and corporate fraud, and ensure that both top management and employees comply with provisions of international and Russian anti-corruption laws, as well as its internal regulations in this area.

The internal anti-corruption and anti-fraud regulatory framework continued to develop and enhance in 2016. In particular, the Company:

- Developed and approved the procedure for random checks of the accurateness and completeness of information that Rosneft employees provide on their income, property and property-related liabilities
- Developed and approved the Corruption and Fraud Risk Assessment Methodology; a risk sheet is maintained for this risk, describing the risk assessment approach and resulting estimates, as well as key risk factors and risk management measures
- Updated the regulation on the Procedure for Verifying Information Communicated via the Security Hotline
- Amended the internal regulations covering the procurement of goods, works, and services, pricing, and counterparty reviews, which are instrumental in mitigating corruption risks in procurement
- Developed and approved the regulation on the Procedure for Carrying out Charity Activities by Rosneft and Group Entities and the regulation on the Sponsor Activities of Rosneft and Group Entities
- Improved transparency over the procurement of security services and, for this purpose, developed and communicated to Group entities the qualification requirements for service providers, including a number of criteria, in particular: the availability of qualified staff, motor vehicles, and storage facilities for weapons and impact munition
- Developed a methodology to identify tampering with motor fuel dispensers and communicated the methodology to the distribution entities of the Group
- Implemented recommendations to help Group entities in identifying dishonest purchasers that use passports of quality and declarations of conformity for Company products in order to sell counterfeit products
- Implemented at the Company's new assets internal regulations covering this area, such as the Anti-Corruption Policy.

The company has well-operated controls of contract procedures, prices, and discounts, helping it to effectively identify any evidence and facts of affiliation, vested interests, and potential corruption schemes. The 2016 review process covered 92,514 companies applying to take part in procurement procedures (inventory supplies, capital construction projects, and oilfield and non-production services).

Ongoing and systemic efforts continued in order to identify commercial schemes that involve irregularities or abuse of power on the part of management or third parties. The materials that Group entities' security units collected and submitted to law-enforcement agencies in 2016 resulted in opening 666 criminal cases.

The Action Program to prevent any instances, and preclude the occurrence, of theft, fraud or damage when dealing in hydrocarbons and related products, was approved and implemented in 2016.

In an effort to counter the involvement of Company employees in corruption, all hired candidates underwent careful scrutiny, including for potential conflict of interest.

The system of quick response to phone fraud was put in place.

The Company developed and launched a dedicated Anti-Corruption section on its official website (https://www.rosneft.ru/Development/anticorruption/).

Successful practices are shared by communicating to Group entities information about newly identified schemes that underlie various abusive practices. Anti-corruption and anti-fraud training sessions are conducted as part of the overall compliance training system. Short-term plans to enhance training programs provide for development of a number of specialized anti-corruption courses, including draft materials for multimedia courses on management of conflicts of interest and on exchange of business gifts and business hospitality.

Results of operating the Security Hotline

The Security Hotline received 13,801 calls in the reporting year, a 4.3% growth compared with 2015. In 13,142 cases, the callers were given relevant information or clarifications, and 42.4% of the investigated reports proved fully or partially true. This helped identify and prevent damage of about RUB 300 million. Disciplinary sanctions were imposed on 88 employees, and employment contracts were terminated with 29 employees. In 17 cases, the investigation materials were forwarded to law-enforcement agencies. In addition, the Company lodged claims against contractors for improper fulfillment of their contractual obligations, identified conflicts of interest and other misconduct, introduced security measures, changed the accounting rules for inventories, and took other preventive steps.

The results of operating the Security Hotline were reported to the Board of Directors on a quarterly basis.

The Company took steps to centralize information on corporate fraud, corruption, theft, unfair competition, and conflicts of interest, which the Company receives at its mail and email addresses.

700

EMPLOYEES OF ROSNEFT
took the on-site course on
systemic approach to developing
the compliance function

92,514

COMPANIES
applying to take part in procurement
procedures were covered
by the 2016 review process

13,801

CALLS
were received by
The Security Hotline
in 2016

RISK MANAGEMENT AND INTERNAL CONTROL

ROSNEFT HAS IMPLEMENTED AND IS CONTINUOUSLY IMPROVING ITS RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM IN COMPLIANCE WITH RUSSIAN LAWS, RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE APPROVED BY THE BANK OF RUSSIA, AND INTERNATIONAL BEST PRACTICES.

Rosneft has implemented and is continuously improving its Risk Management and Internal Control System (the "RM&ICS") in compliance with Russian laws, recommendations of the Corporate Governance Code approved by the Bank of Russia, and international best practices. The RM&ICS is a combination of risk management and internal control processes that operate on the basis of the existing organizational structure, internal policies and regulations, risk management and internal control procedures and techniques applicable across all management levels and functional areas of the Company, enabling the Company to identify, assess and respond to risks in a timely manner. These processes are aimed at striking an optimal balance between an increase in the Company's market value, profitability and risks, and ensuring its financial stability, efficient performance, integrity of its assets, compliance with laws and internal regulations, and timely financial reporting.

The Company implements and updates on an annual basis a comprehensive RM&ICS development program that defines goals and objectives, sets out key activities to facilitate the achievement of the Company's strategic goals in RM&ICS, and determines deadlines and responsible units. The comprehensive RM&ICS development program is aligned with the Rosneft Development Strategy, the Rosneft Long-term Development Program, internal regulations applicable to the RM&ICS, as well as a federal rules on auditing, and recommendations of international professional organizations in risk management and internal control, including the Committee of Sponsoring Organizations of the Treadway Commission (COSO), seeking to promote the current action plans of RM&ICS parties.

RISK MANAGEMENT

The risk management process is regulated by the The Corporate-wide Risk Management System (the "CRMS") Standard. Responsibility for the design and operation of the CRMS rests with the Risk Department. The Risk Management Committee was set up in late 2016 at the helm of the Chief Executive Officer, as a collective advisory body with authority over the development of a concerted position on issues relevant to the management of risks across the Company.

The Company carried out the following activities and initiatives to enhance the CRMS in 2016:

- Together with its business and functional clusters, designed algorithms for quantifying key risks, including the risks of accidents, industrial injuries, and pipeline ruptures – 11 out of 21 risks in the Company's 2017 risk map are assessed using quantification algorithms
- Developed uniform methodologies for making up a comprehensive register of corporate risks, including risks arising from the current financial and business activities and risks of business processes
- Developed a uniform approach to surveying inspections and control over the implementation of insurance engineers' recommendations to reduce/eliminate accident risks, including preparation of an annual report on previous recommendations and their implementation status. The summary report is forwarded to Group entities, industrial safety units, and top managers of respective business clusters, to ensure overall supervision.

The Corporate-wide Risk Management System requires reporting on all key risks, including:

- A report on strategic risks covering the period through 2030, with an analysis and assessment of risks that may hinder the achievement of the Company's strategic goals and targets
- Corporate reports on risks arising from the Company's financial and business activities, with information on material risks that may affect the achievement of goals and business plan indicators at one year horizon.

The 2016 corporate reports on risks of financial and business activities were submitted for consideration to the Audit Committee of Rosneft's Board of Directors.

Five more of the Group's key entities, including Bashneft, were put under the CRMS umbrella as a result of measures carried out in 2016.

The Company continues to operate an effective internal network of risk champions comprising 80+ employees of various units at the Company's headquarters. The risk champions help identify and assess risks, prepare risk reports, and coordinate risk efforts across Group entities. Training events are held for risk champions on a regular basis.

ASSESSMENT OF COMPLIANCE RISKS

The work to assess compliance risks continued in 2016. The Risk Department designed an approach for quantifying fraud and corruption risks, based on statistics on realized fraud events during the reporting period. In addition, an approach was designed to assess the risk of violating anti-monopoly regulations. An aggregated assessment of this risk relies on quantitative modeling of the amount of losses in 2016 in case of realization of certain risk factors. The combined effort of the Risk Department and relevant functions resulted in generating risk sheets that describe the risk assessment approach and resulting estimates, as well as key risk factors and risk management measures. Fraud, corruption and anti-monopoly risks were included in the corporate risk map in 2016.

Key risks related to the Company's business

Sector, country, regional, financial and legal risks to which the Company is exposed are described in detail in Appendix 2 to the 2016 Annual Report. This section contains a detailed discussion of risks to sustainable development, such as those related to HR and social policy, industrial and occupational health and safety, and environmental protection.

Risks related to prices for crude oil, gas, and petroleum products

Prices for the Company's products directly impact its financial and economic performance, and any price decrease may impair the profitability of oil and gas production by Rosneft. This will in turn decrease the amount of its commercially viable reserves and the cost-effectiveness of exploration activities. The Company can mitigate this risk, should it realize in case of a price drop or a significant gap between the domestic and world market prices, by re-distributing its commodity flows and managing its operating costs and capital expenditure.

Risks related to the reliance on monopoly providers of oil, gas, and petroleum products transportation, and their tariffs

The Company's business is built around the transportation of its oil, gas, and petroleum products by monopoly service providers, such as Transneft, Russian Railways and Gazprom. It means that the infrastructure they operate and tariffs they charge are beyond the Company's control.

Risks related to the sale of gas produced

The key risk factor potentially adverse to the Company's gas sales is that customers will fail to take their contracted amounts of gas. Failure to meet Gazprom's quality requirements for gas accepted into its gas transmission system may result in the risk of restrictions on the amount of gas fed into the system and penalty sanctions from Gazprom In addition, there is a risk that Gazprom will restrict the amount of gas accepted into the gas transmission system for the undistributed amount of gas.

Risks related to the amount of actual reserves

The oil and gas reserves data are estimates that largely rely on internal analytics performed by Degolyer and MacNaughton (D&M), the Company's independent advisor on oil and gas production technology. Actual reserves may differ from these estimates.

Risks related to competition

The oil and gas sector is highly competitive. Rosneft faces competition mainly from other Russian oil and gas companies and is a sector leader both in Russia and globally, which gives it a significant competitive advantage.

Risks related to geography and climate

The Company operates in regions with a steady climate that are rarely affected by natural calamities and disasters. However, extremely low winter temperatures that occur now and then may impede the operation of its oil and gas producing entities in northern regions.

Oil exports from the Black Sea terminals to ports in the Mediterranean may be limited by the transit capacity of the Bosphorus and weather conditions – gale-force winds – in the Black Sea in autumn. The Baltic Sea terminals and De-Kastri may be closed in winter due to a severe ice situation. Lengthy downtime at the export terminals may have a potential adverse effect on Rosneft's performance and financial position.

Risks related to environmental protection and industrial safety

The Company faces risks related to industrial and occupational health and safety, and environmental protection ("HSE risks"), which result from:

- Accidents, incidents, fires, or other emergency situations involving damage to the Company's active production facilities and equipment, or deviation from process flow settings
- Any harm to the health of employees, contractors, visitors, or population in the vicinity
- Adverse effects on the environment from industrial and business operations
- Penalty sanctions or temporary suspension of production operations, or damage to business reputation and loss of trust on the part of stakeholders due to failure to comply with applicable regulatory requirements covering industrial and occupational health and safety, and environmental protection.

Rosneft operates a dedicated system for managing industrial and occupational health and safety, and environmental protection, which brings together resources and procedures essential to both prevent, and respond to, hazardous occurrences. The Company applies policies and approaches throughout the lifecycle of its sites and facilities, to ensure a continuous enhancement of the system used for managing HSE risks effectively and in line with applicable requirements for a safe operation of processes at production facilities, subject to existing cutting-edge technology.

Risks related to HR, and social programs

The success of Rosneft's business rests on its people. With more operations carried out in challenging conditions, e.g. offshore, and with involvement in international projects, employee motivation and qualification tend to have a greater impact on the financial performance of individual business units and the Company as a whole. The risk analysis of HR and social programs helped identify categories of risks related to the Company fulfilling its social commitments, and those arising from a shortage of well-qualified staff in certain narrowly specialized areas. Rosneft manages these risks through a variety of measures, as set down in its HR and social strategy, designed to recruit and retain highly qualified personnel, and develops and improves the existing policies and procedures covering HR management, social development, and corporate culture.

Country and regional risks

Rosneft's operations span across all federal districts of the Russian Federation, taking into account territorial development outlook as well as the potential social and economic risks identified in the Medium-term Socio-economic Development Program of the Russian Federation. The Company has experienced the exposure of its business to geopolitical risks.

Apart from that, Rosneft faces the risks of operating outside Russia, particularly in developing markets that are exposed to greater political, economic, social and legal risks than more developed economies. The risks of operating in developing economies are in many respects similar to, or even higher than, Russian country risks.

Financial risks

Financial risks, including currency, interest rate, credit and liquidity risks, are an important component of the Company's overall risk exposure.

Rosneft generates a substantial portion of its revenue from export sales of oil and petroleum products. Naturally, the fluctuations of the ruble exchange rate against other currencies impact the Company's financial and business performance and give rise to currency risk.

Natural hedging is inherent in a business that has both revenue and liabilities denominated in foreign currency because two opposing factors are at play mitigating the effect of exchange rate risk on the Company's financial and business performance.

The Company is also exposed to credit risk, arising if a counterparty fails to fulfill its financial obligations to Rosneft. The Company applies a comprehensive approach to managing its credit risk, which requires monitoring of counterparties' financial status by analyzing their financial statements.

Liquidity risk arises from the realization of other risks inherent in the Company's business. Therefore, measures that manage price, currency and interest rate risks also work to manage liquidity risk.

Legal risks

Legal risks inherent in the Company's business include risks arising from changes in currency, tax, customs, antitrust and procurement laws and regulations, and litigations involving the Company. In addition, legal risks pertain to the regulation of subsoil and land use and town planning, and include the associated risks resulting from regulatory changes that affect environmental protection and industrial safety. Rosneft performs ongoing monitoring of changes in laws and regulations, and senior courts' decisions, and analyzes law enforcement practices.

In case of any systemic problems in law enforcement, Rosneft comes up with proposals for improving the current regulations and turns to government bodies for clarification and advice regarding a particular provision or requirement.

The Company takes into consideration the EU and US sanctions and monitors them continuously in order to mitigate any adverse effects.

INTERNAL CONTROL

The Internal Control System (the "ICS"), along with the Corporate-wide Risk Management System, is an essential component of the Risk Management and Internal Control System. The ICS is a comprehensive framework of organizational measures, policies, guidelines, and control procedures designed to mitigate business process risks, and actions taken by owners and operators of the Risk Management and Internal Control System, and to ensure proper running of the business. Rosneft operates the ICS to secure financial stability, strike an optimal balance between an increase in the Company's value, profitability, and business-process risks, run its business in a smooth and efficient manner, maintain the integrity of its assets, identify and correct or prevent irregularities, comply with applicable laws and internal regulations, perform timely and reliable financial reporting, and thus improve the Company's investment attractiveness.

In 2016 the Internal Control Department, together with units that own and operate the RM&ICS, developed a matrix that records a functional distribution of responsibility across the RM&ICS and defines functions, roles, and communication basis for RM&ICS owners and operators. The matrix takes account of internal regulations and has been approved by dedicated top managers.

The Company carried out the following activities to enhance the ICS in 2016:

- Refined the internal control methodology, including amendments to the Internal Control System Standard, approved and enacted the regulation on Designing, Implementing, and Maintaining the Internal Control System
- Conducted training on the ICS for employees of Rosneft and Group entities
- Designed, with subsequent approval by dedicated top managers, model risk and control matrices for the following business processes:
  - Financial management, except corporate finance, and budgeting
  - Business planning
  - Onshore drilling, in particular, construction of production wells
  - Oil refining and petrochemicals, in particular, acceptance of crude oil feedstock at, and shipment of petroleum products from, a refinery.
- Developed and put into a pilot operation the Internal Control content in the SAS information system.

STAKEHOLDER ENGAGEMENT

ROSNEFT IS WORKING TO BUILD AN EFFECTIVE FRAMEWORK FOR ENGAGEMENT WITH ITS STAKEHOLDERS, BASED ON RESPECT AND MUTUALLY BENEFICIAL COOPERATION.

According to the corporate Policy on Regional Development and Cooperation with Constituent Entities of the Russian Federation, Rosneft's stakeholders include its partners and counterparties, international and national business associations, non-profit and non-governmental organizations, educational institutions, as well as Company employees, general public, and other persons that are interested in cooperating with the Company or rely, to any extent, on its operations in the regions where it has a presence.

Rosneft is working to build an effective framework for engagement with its stakeholders, based on respect and mutually beneficial cooperation, finding out expectations and prompt provision of information, as well as willingness to maintain the balance of interests between parties in the course of decision-making. The Company uses various communication tools, depending on the particulars of each stakeholder. The approaches, principles, and mechanisms the Company applies to engage with the key groups of its stakeholders, such as employees and investors, are described in detail in the respective chapters of this Report. Public consultations as part of the environmental impact assessment of the planned activities, particularly in the regions of operation, have historically been instrumental in maintaining partner relationships with local stakeholders and regional government bodies, along with regional roundtables that the Company has been holding regularly over the past ten years.

PUBLIC CONSULTATIONS ON THE RESULT OF THE ENVIRONMENTAL IMPACT ASSESSMENT OF THE PLANNED ACTIVITIES

Group entities hold public consultations on the results of the environmental impact assessment of the planned activities in the regions of presence, as required by Russian laws.

All in all, 46 public consultations were held in 2016 in the Yamalo-Nenets Autonomous Okrug, Primorsky Territory, Krasnoyarsk Territory, Irkutsk Region, Krasnodar Territory, Khanty-Mansi Autonomous Okrug – Yugra, Nenets Autonomous Okrug, Republic of Sakha (Yakutia), Arkhangelsk Region, Sakhalin Region, Chukotsky Autonomous Okrug, with 18 consultations arranged by RN-Shelf-Arctic. Their form varied from hearings to Doors Open Days to surveys.

In February 2016, the Company held public hearings in the Primorsky district municipality in the city of Arkhangelsk and conducted a survey in the Novaya Zemlya urban district municipality in the Arkhangelsk region. The discussion focused on the marine geochemical exploration program, including environmental impact assessment, at the Albanovsky, Varneksky and Zapadno-Prinovozemelsky license blocks.

Three public hearings and two public consultations in the form of a survey were held in the Krasnoyarsk Territory in April, September and November 2016. Public hearings took place in the town of Dudinka and the rural settlement of Khatanga, focusing on two integrated geophysical survey programs, including environmental impact assessment, at the Khatangsky and Pritaymyrsky license blocks, and the project documentation for Tsentralno-Olginskaya exploration and appraisal well No.1PO at the Khatangsky license block. All public hearings had a good showing of local community members who asked numerous questions and received clear and detailed answers from Company representatives. The hearings and surveys resulted in signing minutes and obtaining approval letters for the documentation.

Two public hearings – in the village of Saskylakh and the settlement of Yuryung-Khaya – and three public consultations in the form of a survey – in the Bulunsky and Allaikhovsky uluses of the Nizhnekolymsky district – were held in the Republic of Sakha (Yakutia) in April and December 2016, focusing on two integrated geophysical survey programs at the Khatangsky and Vostochno-Sibirsky-1 license blocks. As a result of the hearings and surveys, minutes were drawn up and signed by representatives of municipalities' administrations, the Company, and interested members of the public.

A survey was carried out in the Chukotsky Autonomous Okrug in December 2016, to measure public views on the discussion materials for the integrated geophysical survey program at the Vostochno-Sibirsky-1 license block. The survey in the urban district of Pevek and the Bilibinsky district received a large number of completed questionnaires, showing a keen interest from the public in the future developments. Administrations of the municipalities signed public consultation minutes, and approval letters were obtained for the program materials.

Successful public hearings and Doors Open Days took place in the Sakhalin region in November 2016. The hearings in the settlement of Nogliki focused on the project documentation for Vostochno-Pribrezhnaya No.1 and Vostochno-Pribrezhnaya No.2 exploration and appraisal wells at the Vostochno-Pribrezhniy license block. The central local library in the town of Okha hosted a Doors Open Day to present the integrated geophysical survey program, including environmental impact assessment, at the Deryuginsky license block. The consultations resulted in signing minutes and obtaining approval letters for the documentation.

Public consultations over the 3D seismic exploration program at the Magadan-3 license block were held in the form of a Doors Open Day in the settlement of Ola, the Magadan region, and the city of Magadan in November 2016. The participants completed questionnaires and signed summary minutes of the meetings. Members of the public appreciated the materials presented for consideration and did not raise any objections to the program.

All public consultations provided interested members of the public with the chance to examine program materials (draft environmental impact assessments, presentations, etc.), ask questions, and give Company representatives and program developers their feedback on the implementation of the project and the exploration program, in particular, by completing ad hoc questionnaires.

Oil Company Priazovneft, a joint venture of RN-Exploration (51%) and LUKOIL-Nizhnevolzhskneft (49%), together with the administrations of the Temryuk district municipality and Temryuk urban settlement, had four successful meetings with the public in the town of Temryuk in 2016, to discuss the following projects:

- The draft land plan to build an external power supply facility for well No. 1 at the Novoye field
- The project documentation, including environmental impact assessment, for prospective business and other activities associated with the construction of exploration well No. 2 at the Novoye field
- The plan for preventing and cleaning up oil spills during the construction of well No. 2 at the Novoye field
- The draft land plan to build a coast dam with a dam road on Verbyanaya Kosa, a sandspit in the Temryuk district.

Interested members of the public had a chance to study the discussion materials, ask questions, and share comments at the counseling office during a month before the hearings. Competent answers were given to all questions, and the hearings resulted in endorsement for the projects and signing the minutes.

Roundtable in Ryazan.

ROUNDTABLES IN THE KEY REGIONS OF OPERATION

Rosneft holds roundtable discussions in the key regions of operation every year, viewing them as the primary tool to get feedback on the Company's operations. The tenth series of 14 roundtables took place in 2016.

It is a tradition for Company representatives to host the roundtables that are attended by regional government authorities and stakeholders, such as public organizations, educational and academic institutions, communities of indigenous peoples of the North, business partners, mass media, and general public in the regions of operation.

The roundtables is an opportunity for the Company to present its operating performance in the respective region and discuss the role of Group entities in regional development, including economic, environmental and social aspects of cooperation and individual projects, whereas regional representatives and Group entities come up with proposals for joint action to promote sustainable development.

In 2016 roundtables took place in the following towns and cities: Baykit and Igarka (Krasnoyarsk Territory), Gubkinskiy (Yamalo-Nenets Autonomous Okrug), Izhevsk (Udmurt Republic), Krasnodar and Tuapse (Krasnodar Territory), Orenburg (Orenburg Region), Ryazan (Ryazan Region), Samara (Samara Region), Saratov (Saratov Region), Stavropol (Stavropol Territory), Usinsk (Komi Republic), Khanty-Mansiysk (Khanty-Mansi Autonomous Okrug – Yugra), and Yuzhno-Sakhalinsk (Sakhalin Region).

Key topics of roundtable discussions

Meetings with stakeholders dealt with various topics that can be arranged into the following major groups.

Development strategy of Group entities

Rosneft is a major employer and taxpayer in the regions of operation, whose social and economic development is largely dependent on the Company implementing its projects there, and therefore, the development strategy of Group entities has been a traditional topic for roundtable discussions.

Other matters of importance to stakeholders include timely information on Rosneft's plans to change production volumes, develop new fields, upgrade refineries and infrastructure facilities, and expand its network of filling stations.

Several regions raised a question of a potential decrease in tax revenue from the Company's operations as a result of Group entities joining the consolidated taxpayer group. Group entities confirmed their bona fide taxpayer status in all cases. Management of the Ryazan refinery speaking at the roundtable in Ryazan, emphasized that no decrease in tax revenue was expected despite current changes. Representatives of the Izhevsk regional government pointed out during the roundtable that it is critical for the region that the Company maintain oil production at the current level by putting new wells into operation and implementing new technologies in order to generate sufficient tax revenue.

The roundtable in Saratov focused on the start-up of a hydrocracking unit and specialized new jobs to be created at the Saratov refinery.

Long-term forward-looking programs to explore and develop new deposits and areas were at the center of the discussion in Khanty-Mansiysk. RN-Nyagannefteqaz and Samotlorneftegaz shared with their stakeholders current plans regarding changes in oil production. The discussion also touched upon transition to a new tax system that could increase the investment attractiveness of projects to develop tight oil reserves. For its part, the Company assured the stakeholders of its financial strength and unveiled plans for new geological exploration.

The roundtable in Krasnodar focused on quality control of petroleum products. Kubannefteprodukt gave an account of the operation of stationary and mobile laboratories used to control the quality of petrol and diesel fuels.

Environment, safety and health

Issues that come up for roundtable discussions usually concern mitigating adverse environmental footprint of Rosneft's operations and maintaining industrial and occupational health and safety at Group entities.

Discussion topics brought up by participants included prevention of pipeline ruptures, control of air emissions, utilization of associated petroleum gas, waste recycling, repair of accumulated environmental damage, restoration of land, and environmental awareness initiatives. Overall, stakeholders who took part in round tables thought much of, and appreciated, the Company's efforts in these areas over the past year.

In Krasnodar, the discussion developed around the restoration of sites in the Abinsk urban settlement where oil-contaminated waste had accumulated. The Company briefed the participants on its efforts and plans to implement the program for repairing accumulated environmental damage. Removal of multiple oily sludges across the Samara region came into focus at the roundtable in Samara. Stakeholders attending the roundtable in Saratov called for the Company to continue recycling of oil-contaminated waste in the region. Management of the Saratov refinery reported on the results of work discussed during the previous roundtable series. In particular, the Company announced the liquidation of the underground oil storage tank nearby the Saratov refinery.

Participants of the roundtable in the town of Tuapse raised the question of air pollution from industrial enterprises. Reports of General Directors of certain Group entities described measures that Rosneft had carried out to address this issue, including regular monitoring of air quality and ensuring that even large tanks are kept airtight to prevent evaporation of oil products.

Pipeline safety was at the center of discussion at the roundtable in Khanty-Mansiysk. RN-Yuganskneftegaz presented the results of implementing a program to replace pipelines and mitigate pipeline accidents, and unveiled plans for program enhancement. In addition, the Khanty-Mansiysk rountable discussed a joint project between the town of Nefteyugansk and RN-Yuganskneftegaz to build a facility for deferrization of water, which will help supply the town with clean cold water. The stakeholders also highlighted the contribution of RN-Yuganskneftegaz into the construction of sewage treatment plants that stopped the discharge of crude sewage into the Yugaskaya Ob river.

The roundtable in Rayzan also focused on upgrading the waste treatment facilities at the Ryazan refinery. The Ryazan regional government and Company management reported on the project progress, noting the effective and constructive cooperation between the refinery and the regional authorities in the course of the project.

Rountable participants in the town of Gubkinskiy appreciated the participation of RN-Purneftegaz employees in the Clean Town initiative to collect solid waste. The stakeholders attending the meeting in Yuzhno-Sakhalinsk thanked RN-Sakhalinmorneftegaz for its active involvement in the environmental awareness program for communities in the Sakhalin region.

Participants in the majority of rountables called for the Company to enhance safety measures at Group entities. The Company, in its turn, outlined plans to carry out safety drills. Personnel protection, and prevention of emergency occurrence and development remain at the top of the Company's and Group entities' safety agenda. Safety exercises and drills are conducted at the Company's production sites on an ongoing basis, with results used to evaluate rescue readiness of emergency teams at Group entities, availability of resources for emergency management, as well as to hone incident response skills and emergency actions.

Contribution to the development of regional economy and infrastructure

Rosneft makes a substantial contribution to the development of regions where it operates. Projects implemented by Group entities give a fresh start to the development of local enterprises, social services, human resources, and infrastructure, improving regions' attractiveness to investors.

The roundtables held in 2016 discussed a range of issues covering the construction of social facilities, development of related industries and regional infrastructure.

Employment of blue-collar workers living in localities close to Company enterprises was discussed during the roundtable in the town of Gubkinskiy. Another discussion point focused on cooperation between the Company and local small and medium-sized businesses. Steps to boost small and medium-sized enterprises in the region were also discussed in Khanty-Mansiysk. Management of Samotlorneftegaz outlined the Company's approach to more effective engagement with small and medium-sized businesses. For example, construction works are broken into smaller lots suitable for small and medium-sized companies. The use of banking instruments made it possible for contractors to receive prompt payment for their services.

Igarka stakeholders appreciated the important contribution of RN-Vankor into the construction of regional infrastructure, in particular, the total upgrading of the Igarka airport by the Company and the construction of a road link from the helicopter pad to the town hospital supported by RN-Vankor.

Operation and maintenance of municipal link roads is a cause for concern for people living in Orenburg. Orenburgneft has developed a program for road maintenance, repairs and furnishings covering 500 km of municipal roads. All participants in the discussion agreed that repairs of industrial roads should be addressed by a concerted effort of all stakeholders.

Social responsibility and charity

Roundtable participants acknowledged the role of Rosneft as an active participant in regional life, helping indigenous peoples, organizing sports and fun events, and implementing numerous charitable and socially-focused projects.

Roundtable in Orenburg.

Igarka airport.

The roundtable in Baykit discussed the results of three landmark projects run by the Company for indigenous small-numbered peoples of the North: Evenk Reindeer, Bread for People of the North, and Siberian Sable. The projects are described in detail in the Environment and Society chapters of the report.

In Igarka, the roundtable discussion focused on support for indigenous people engaged in their traditional crafts. For example, RN-Vankor has historically acted as a partner to Reindeer Breeder Day celebrated in the settlement of Sovetskaya Rechka in the Turukhansky District and in the settlement of Nosok in the rural settlement of Karaul in the Taymyr Peninsula.

Stakeholders living in Izhevsk thanked Udmurtneft for its support of the local zoo.

Education

Rosneft's involvement in the educational program to help its future employees in adapting to the Company' business requirements was an important topic of roundtable discussions. In particular, stakeholders take considerable interest in Rosneft Classes, proving them to be an effective way to bring up a new generation of skills for the oil industry.

Rosneft's support for regions comes in the form of procuring materials, supplies and equipment for schools, setting up laboratories, and giving financial aid to universities.

At the meeting in Samara, the participants thanked the Company for the funding it provided to set up two laboratories for Samara State Technical University. Members of the Usinsk community acknowledged the successful cooperation between the Company and Ukhta State Technical University. The cooperation program includes employment with the Company during an internship period, social support for students in the form of corporate scholarships, work for student construction brigades, assistance in procuring materials, supplies, and equipment for the university and its Usinsk branch, as well as joint research and technology initiatives. At the roundtable in Yuzhno-Sakhalinsk, the Company reached an agreement with Sakhalin State University to combine efforts for upgrading the facilities and equipment of the university's Okha branch.

INNOVATION, RESEARCH AND TECHNOLOGY ADVANCEMENTS

THE INNOVATION PROGRAM IS AIMED AT ACHIEVING THE COMPANY'S STRATEGIC GOALS AND PROCEEDS FROM ITS KEY PRIORITIES - EFFICIENCY, SUSTAINABLE GROWTH, TRANSPARENCY, SOCIAL RESPONSIBILITY AND INNOVATION.

Rosneft is strongly committed to technology leadership in order to achieve its strategic goals. The main objectives of the Company's Innovation Program include the following:

- Achieving technological independence and agility, being flexible in selecting contractors and markets, and maximizing the local technological content
- Securing technological competitiveness on both domestic and international markets in oil and gas production and processing and in related areas
- Establishing best practices and standards to manage technology development and expand the technological base
- Building in-house technological competencies in core areas, such as oilfield services, tight-oil extraction, offshore exploration and development, oil recovery enhancement.

44.1

RUB BILLION
spent on innovation
in 2016

The Company met most of its key innovation targets set under the Innovation Program in 2016, pursuing activities and providing financial support for them as planned, with a total of RUB 44.1 billion spent in 2016, including RUB 20.2 billion on R&D activities. Investment in Rosneft's target innovation projects totaled RUB 1.22 billion. The decline in R&D spending from the previous year was due to the revision of the Innovation Program for the period 2016–20 and further to 2030, with the target level of R&D costs set at 0.3% of revenue.

A particular focus in 2016 was placed on the implementation of R&D results and the protection of intellectual property rights. The Company filed 54 applications for patents and software rights, and obtained 51 patents in 2016, with the total number of patents reaching 566.

Under its Pilot Testing Program, Rosneft tests, adapts and implements advanced technologies, simultaneously evaluating their key features and conducting feasibility studies to determine whether the novel solutions can be successfully deployed in the Company's geological and technical conditions. In 2016, Rosneft provided RUB 3,333 million for technology tests and spent RUB 12,528 million on the implementation of solutions that passed such tests successfully.

Technology testing and deployment in 2016

	NUMBER OF TECHNOLOGIES	CUMULATIVE OIL PRODUCTION INCREASE, THOUSAND TONNES	TOTAL ECONOMIC EFFECT, RUB MILLION
Technology testing	109	319	2,232
Technology deployment	141	2,733	2,084

141

TECHNOLOGY DEPLOYED

4,316

RUB MILLION –
economic effect from technology testing and deployment

3,333

RUB MILLION
provided for
technology tests

The Company undertakes projects in various areas, including oil and gas exploration and production, oil refining and petrochemicals. Below is a select list of key projects that already have a noticeable economic effect on the Company.

Exploration and production

- Ongoing research into the gas potential of the Berezovskaya suite has been established. A dedicated program to conduct additional field work on the Berezovskaya suite has been established and is currently being implemented. Based on the findings from 2015-16, free-gas reserves of the Berezovskaya suite exceed 5 tcm. The Company has started to develop technologies for reserves localization and economical extraction in order to add more reserves to its books and boost capitalization.
- A technology has been developed to detect fractured-cavernous reservoirs and determine their properties by applying innovative techniques for processing and interpretation of scattered waves. The technology has been tested at the Labagansky, Kuyumbinsky and Yurubchensky license areas as part of the pilot development program. After successful testing, the technology has moved into the deployment phase.
- A study to explore the potential of Upper Jurassic intervals at license areas operated by RN-Yuganzkneftegaz has been completed, with an extended logging set recorded along with a core analysis program completed in three wells. Based on the study, a 1D geomechanical model and a directional hydraulic fracturing model have been built, followed by HV slickwater fracturing in two deviated production wells. The results will be used to build a multi-stage fracturing model that will be tested on two horizontal wells.
- Rosneft continued to test its proprietary technology for the development of low permeable reservoirs using multiple fractured horizontal wells at license blocks operated by RN-Yuganskneftegaz, with 15 wells drilled at the pilot site and planned geophysical studies performed to control the efficiency of the proposed development schemes. Transverse multiple fractured horizontal wells yielded increased production, compared with nearby wells drilled in similar geological settings.

- Rosneft developed 20 new methods for analyzing core samples from complex or unconventional reservoirs. The new analytical methods are designed to provide more insight into reservoir lithological and mineralogical composition, porosity, permeability, mechanical properties and other parameters. Following their approval by government authorities, the methods were adopted by the Company's scientific research and design institutes.
- The Company continued the roll-out of RN-KIM, a proprietary hydrodynamic simulator suite, with 129 workstations installed and over 500 hydrodynamic models built to date. Work has started on new modules for optimizing the performance of cluster and supercomputer systems, building dual-porosity/dual-permeability models, modeling surface networks, designing indicator sets, calculating the parameters of polymer flooding, and performing an expert review of geological and hydrodynamic models.
- A beta version of a hydraulic fracturing simulator has been developed and is now being tested at the Company's specialist units. Building unique geotechnical capabilities will allow the Company to improve the economic and operating performance of its OFS business and end dependence on foreign technologies.
- The Company has developed a high-resolution electrical resistance sensing technology and designed a prototype of an electromagnetic probe.

Oil refining and petrochemicals

- The Company has designed a high-yield catalytic process to produce a range of winter and Arctic diesel fuels that meet the Euro 5 emissions standard. A series of pilot catalyst tests were performed to obtain stable products that meet Class 4 conditions (CFPP value -44°C).
- Rosneft has developed a system of catalytic hydrogenation of vacuum gasoil to obtain an improved-quality product containing less than 500 ppm of residual sulfur, 350 ppm of nitrogen and 10 ppm of heavy metals.
- A pilot batch of a diesel hydrotreating catalysts has been produced, with independent tests performed in the course of the hydrotreatment of directly distilled diesel to compare catalyst performance against its foreign counterpart. The catalyst has proved to be more effective than its foreign counterpart at temperatures of 380-410°C, pressure of 4.0 MP and the feedstock flow rate of 1.0 h^{-1}.
- The Company has developed isodewaxing catalysts to produce mineral base oils with a low pour point that are used for low-temperature adapted lubricants. A main advantage of the new catalysts is that they have a higher base oil yield.

Polymers

- A pilot batch of extra light polymer propping agent (microspheres) has been produced from polydicyclopentadiene using a ruthenium catalyst. A series of tests on the new propping agent confirmed that it is suitable for use in hydraulic fracturing at the Company's sites.

For details about offshore Arctic projects, see The Company in 2016: general information.

PROGRESS UNDER THE GTL TECHNOLOGY DEVELOPMENT PROJECT IN 2016

In 2016 Rosneft continued work on developing innovative technologies for the on-site conversion of natural and associated petroleum gas into synthetic crude oil. The key objective is to reduce the flaring of gas from remote fields where the Company's own energy needs are limited while constructing gas pipelines requires heavy capital expenditures.

The following technologies and documents were developed in 2016:

- Chemical composition of the catalyst for the conversion of natural/associated petroleum gas into synthetic gas, and catalyst synthesis techniques
- Chemical composition of the catalyst for the conversion of natural/associated petroleum gas into synthetic crude oil, and catalyst synthesis techniques
- Draft technical specifications for synthetic crude oil suitable for transportation via trunk pipelines and for refining
- Spectroscopic method for assessing phase stability of a synthetic and mineral crude oil mixture during joint transportation and storage

Plans for 2017-18 provide for the completion of the R&D part of the project, including design inputs for a pilot unit to be installed at one of the Company's sites.

INNOVATION MANAGEMENT SYSTEM CERTIFICATION

In 2016 Rosneft's innovation management system was recognized as compliant with GOST R 56273.1-2014, the Russian national equivalent of CEN/TS 16555-1:2013 Innovation Management – Part 1: Innovation Management System, an international technical specification that provides guidance on establishing and maintaining an innovation management system (IMS). Rosneft has become the first Russian company to officially audit its IMS, thus reaffirming its commitment to technological leadership in the industry.

The certification audit included the analysis and assessment of the entire innovation management life cycle, starting from project risk assessment followed by planning, designing and implementing innovation projects and ending up with real-life deployment of innovative solutions and technologies. The Company's certified IMS has been established in line with its current Innovation Program. The Company has developed a set of internal documents regulating innovation activities and has adopted modern governance processes, as required by international standards.

CORPORATE RESEARCH AND DESIGN COMPLEX

The Company undertook various initiatives to improve its research and innovation activities in 2016. Among them was a Corporate Research and Design Complex, a common innovation platform established on the basis of several corporate R&D institutes and other organizations, which were previously part of Rosneftegaz and BashNIPIneft.

The Corporate Research and Design Complex combines 26 corporate research institutes that employ over 12,000 staff, with more than 5% of researchers holding a PhD degree or higher. With its vast infrastructure and research capabilities, the Complex is well poised to drive innovation. The Complex has a presence in all regions where the Company does business, both within and outside Russia, and its product offerings cover the entire value chain, from the field to retail.

In 2016 the Company approved the 2030 Development Strategy for the Complex that outlines its target organizational structure, sets strategic goals for the future and charts a detailed road map to move forward.

A Department of Technical Regulation was established at corporate headquarters in 2016 as a dedicated governing body to oversee the activities of the Corporate Research and Design Complex. As part of effort to drive research, design and innovation activities, the Company streamlined the structure of academic institutes by designating lead institutes and their subordinate organizations with a focus on specific areas.

Lead institutes are responsible for implementing best practices across their subordinate organizations, which act as centers of excellence and are responsible for monitoring technological advancements within their area of focus, targeting, developing and testing new technologies, maintaining databases of design solutions and keeping a record of delivered projects and research outputs.

The Corporate Research and Design Complex follows a consistent technical policy to improve the speed and quality of its processes and reduce the cost of its products. The pillars of the policy are a corporate system of design patterns, an enhanced level of technical and economic scrutiny, improved industry compliance and standardization, and the pursuit of digital transformation.

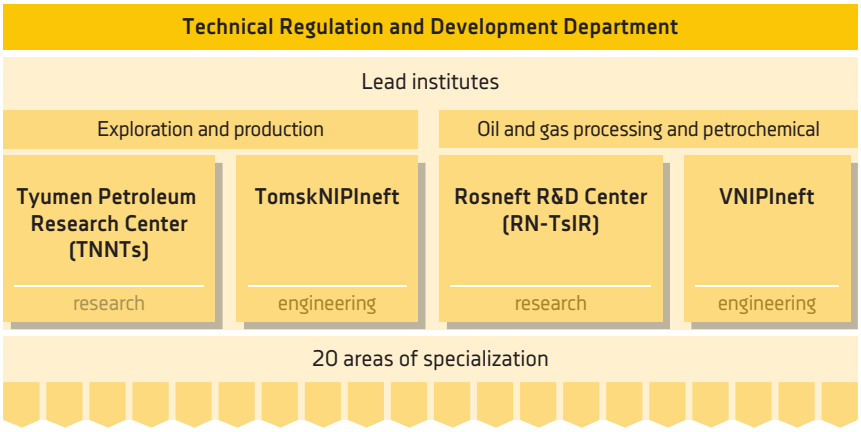
The Complex is widely engaged in various activities and represents the Company as a technology partner in international projects (Venezuela, Vietnam, Brazil, etc.). In Russia, it provides research and design support for joint ventures, including those with strategic partners (Statoil, BP and ExxonMobil).

The Corporate Research and Design Complex cooperates with a number of international companies, including General Electric (Sapphire Engineering and Training Center), Fluor (Sakhalin Neftegas Technology), SNC-Lavalin (VNIPIneft) and ExxonMobil (Arctic Scientific Center), in the development of engineering and other solutions under partnership programs.

The key focus of the Complex's HR agenda is to achieve qualitative changes in the talent structure across all research institutes by increasing the share of digital-savvy professionals among project leads, technology/innovation leads, process engineers and other engineering staff, as well as the share of PhD holders, PhD students and PhD candidates in order to expand the existing research potential.

In 2016 Rosneft's innovation management system was recognized as compliant with the Russian national equivalent of an international technical specification that provides guidance on establishing and maintaining an IMS. Rosneft has become the first Russian company to officially audit its IMS.

CORPORATE RESEARCH AND DESIGN COMPLEX LEAD INSTITUTES



PARTNERSHIP WITH UNIVERSITIES AND INNOVATION CENTERS

To deliver on the objectives of its Innovation Program in 2016, Rosneft pursued a number of initiatives as part of its co-operation with universities and research organizations.

Cooperation with Far Eastern Federal University was centered on the following three special innovation projects:

1. A project to develop a control system with an unmanned underwater vehicle for performing environmental checks at the heads of offshore exploration wells in Russia's Arctic at a depth of 20 to 300 meters. The work completed in 2016 included (i) technical requirements for the design of the Arctic and sub-Arctic offshore underwater control system, and (ii) recommended design solutions, comprising a schematic drawing and a 3D model of the vehicle. The project's 2016 funding totaled RUB 6 million.
2. A project to design a system for performing a technical and economic viability analysis of offshore development. The project concept and road map were prepared in 2016.
3. A project to build a database of environmental parameters and seabed soils at Rosneft's offshore license areas in the Arctic and the Far East. The work completed in 2016 included (i) a prototype of Shelf information management system, (ii) a modeling tool to study the effects of ice accretion on offshore structures, and (iii) mathematical modeling of tsunami waves in Russia's northern seas. Project costs in 2016 totaled RUB 44.5 million.

At the Eastern Economic Forum in September 2016, Rosneft and Far Eastern Federal University signed an agreement to design and verify certain elements of the Arctic engineering system and assess offshore permafrost conditions in the Khatanga license area. A study of permafrost is scheduled for the spring of 2017.

A package of 21 research projects has been compiled for Rosneft under a 2013-19 cooperation program with Lomonosov Moscow State University and National Intellectual Development Foundation.

The first six projects have been completed, with the relevant deliverables to be put into practice at Rosneft. Of the remaining 15 projects, 12 are currently in the works and 3 are planned to be started in 2017-19.

Rosneft also pursued R&D in collaboration with Gubkin State University of Oil and Gas, Tomsk Polytechnic University, Siberian Federal University's Oil and Gas Institute, Samara State Technical University, Tyumen State University and Tyumen Industrial University.

EFFICIENCY IMPROVEMENTS

The Company pursues efficiency improvement projects and inventive activities in accordance with established standards. Rosneft received 1,462 improvement suggestions from 1,242 authors in 2016, recognizing 538 suggestions as sound and implementing 375 to improve production processes. Inventors received monetary rewards.

The economic effect from the implementation of improvement suggestions in 2016 totaled RUB 2.5 billion.

2.5

RUB BILLION –
the economic effect from the implementation of improvement suggestions in 2016

OCCUPATIONAL HEALTH AND SAFETY

ROSNEFT COMPLIES STRICTLY WITH HEALTH AND SAFETY LAWS AND STRIVES TO KEEP ITS INTERNAL STANDARDS ON A PAR WITH THE BEST WORLD PRACTICES.

OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEM

Rosneft, as a Russian oil and gas major and a leader in the international energy sector, is committed to operating safely and responsibly and protecting the health and safety of its employees and the population of local communities.

Rosneft complies strictly with health and safety laws and strives to keep its internal standards on a par with the best world practices. The principles to which Rosneft adheres are set forth in the Company's Health and Safety Policy. The policy sets a high priority on promoting a culture of safety and developing leaders in the area of health and safety.

In order to achieve the highest industry levels of health and safety, Rosneft sets the following strategic goals:

- zero work-related injuries and occupational illnesses
- zero accidents and fires

In 2016 Rosneft updated its strategy for occupational health and safety and fire safety, emphasizing the following strategic areas:

- Commitment and informed leadership in occupational health and safety (OHS) and promotion of a culture of safety
- Enhancement of the employee training system in the area of OHS
- Implementation of a system of internal incident investigation
- Risk assessment and management
- Management of contractors and suppliers
- Automation of processes and reporting in the area of OHS
- Formation of an effective system of industrial safety management
- Compliance with fire safety requirements
- Expansion of the integrated management system

In 2016 Rosneft continued to promote a culture of safety and informed leadership in OHS under a program for the period until 2020. The program prioritizes safety and is designed to motivate employees to work safely and to make certain that all Rosneft employees and contractors are monitored to ensure safe practices. The program covers industrial safety, fire safety, occupational health and safety, health care and a healthy lifestyle and other forms of employee support. 53% of the program's 100 planned initiatives had been completed as of the end of 2016. These include the following:

- Rosneft introduced a practice of ranking Group entities based on the results of an annual competition for the title of best company in terms of health and safety
- Rosneft introduced the practice of marking World Day for Safety and Health at Work by launching a number of incentives at Group entities and Rosneft headquarters
- a series of posters featuring the Golden Rules of Safety were prepared and distributed to Group entities
- Rosneft employees were certified for compliance with the Golden Rules of Safety
- Rosneft introduced a practice of having all employees who are sent to Group entities use guidelines and short checklists to do mandatory health and safety checks of the facilities they visit
- employees of Group entities in the Oil Refining and Petrochemicals segment and the Commerce and Logistics segment as well as the heads of Rosneft Group entities were surveyed to determine the level of safety culture
- 650 Rosneft employees took corporate courses (2,254 man-hours) on leadership in OHS, on incident investigation and on HSE risk assessment and management."

As part of the program to promote a culture of safety and informed leadership in OHS, Rosneft launched a pilot project to motivate and reward "safety leaders" in six Group entities. This program is designed to recognize and reward employees for achievements in health and safety as well as to discourage dangerous practices.

As a further incentive for improving the system of OHS, Rosneft holds an annual competition to recognize the company that has been most successful in promoting health and safety. The following entities led the ratings in 2016: Varyeganneftegaz and Nizhnevartovsk Oil and Gas Production Company in the Exploration and Production segment, Rospan International in the Gas segment, Novokuibyshevsk Oil and Additive Plant in Oil and Gas Refining and Petrochemicals, RN-Vostoknefteprodukt in Distribution and Sales, and PNG-KRS (a branch of RN-Service in Gubkinsky) in Oil Service. Group entities also regularly take top awards for occupational safety at regional competitions.

In line with its Environmental Protection and Health and Safety Policy, Rosneft maintains an integrated HSE system, which constitutes a part of the wider governance system and combines processes, rules, procedures, structures and resources needed to achieve the Company's goals in this area. The system is founded on the principles of ongoing improvement, preventive action and the engagement of employees at all levels in ensuring occupational safety and minimizing any adverse impact on the environment. Following an OHSAS 18001 compliance audit in 2016, supervisory bodies confirmed that the integrated HSE system had been properly implemented, maintained and improved. The system's corporate certification process was extended to five new Group entities in 2016 and covered a total of 50 entities by the end of the year.

In 2016 Rosneft continued to work with BP to develop its industrial safety system. A program to improve the current industrial safety system has been developed and is being implemented with the help of experts

from BP Exploration Operating Company Limited. As part of this program:

- current processes for ensuring the integrity, reliability and maintenance of hazardous production facilities at Samaraneftegaz and Kuibyshev Refinery were analyzed and compared with BP's practices; based on the findings, a report with recommendations was prepared
- the current industrial safety system, including leadership and safety culture, was evaluated at Samaraneftegaz, Kuibyshev Refinery and RN-Tuapsenefteprodukt in order to identify shortcomings; based on the findings, BP experts prepared a report with recommendations on shortcomings in Rosneft's industrial safety management system.

Rosneft implemented an Incident Investigation Procedure. This document ensures a higher quality of analysis and diagnostics in terms of identifying the systemic causes of incidents and developing measures to correct defects and improve the system. An internal investigation is done of each major incident (work-related injury, accident or fire), and Rosneft employees identify both the immediate and systemic causes of the incident. Based on the investigation's findings, special information materials, including conclusions and plans of action to prevent similar incidents from occurring in the future, are developed and provided to Rosneft staff.

To ensure that these actions are taken, monitoring was established, including as part of inspections of Group entities.

In 2016 over 52,000 inspections were done at Group entities to keep track of health and safety, and monitoring was instituted to eliminate violations identified by Rosneft's process monitoring committee and state control and oversight authorities.

A program to unify and automate HSE business processes at Group entities and Rosneft headquarters in the period until 2021 was approved in 2016. These processes include:

- special assessment of working conditions
- guarantees and compensation
- periodic medical checkups
- personal protective equipment
- training
- occupational health and safety measures
- process controls
- incident investigation
- compliance with the instructions of oversight bodies
- periodic reporting on occupational health and safety

In 2016 a solution based on SAP EHSM was put into operation at Kuibyshev Refinery. The results of this pilot project showed that the solution is ready, and it is now being rolled out at other Group entities.

THE RAILWAYS 2016 PROGRAM

In August 2016, Group entities in the segments of Oil Refining and Petrochemicals, Distribution and Sales, and Other Services held the month-long Railways 2016 program.
Efforts to promote the safe use of railway infrastructure and the safe transport of hazardous freight included:

- Employee surveys on compliance with safety measures in rail transport
- Showings of a video on safe rail transport
- Inspections to ensure proper use of personal protective equipment by employees working on Group entities' private tracks
- Inspections to verify compliance with safety rules concerning railway crossings and service lanes and rules for the safe transport of hazardous freight
- Inspections to verify compliance with railway coupling requirements
- Selective inspections of the condition of rolling stock on private tracks
- Inspections to assess the general condition of private tracks and crossings
- Inspections to ensure that railway overpasses are properly equipped and meet safety requirements
- Training exercises to assess the level of cooperation between Group entities and third parties in emergency situations on private tracks in order to promote joint efforts.

Based on the results of the month-long program, Group entities developed and implemented measures to correct the identified problems and their causes and to raise the level of safety, including in emergency situations.

34,344

RUB MILLION –
the Company's health and safety expenditures in 2016

In 2016 Rosneft continued its efforts to improve the regulatory framework for occupational health and safety in Russia. Rosneft employees were active in discussing 116 draft regulatory acts concerning OHS (draft laws of the Russian Federation, orders of the Federal Service for Ecological, Technical and Nuclear Oversight and Russian ministries, and decrees of the Russian government), and they proposed changes in most of them. Rosneft employees also took part in meetings, conferences and other events on health and safety held by the Science and Technology Council of the Federal Service for Ecological, Technical and Nuclear Oversight, the Industrial Safety Committee of the Russian Union of Industrialists and Entrepreneurs, the Economic Policy Committee of the Federation Council and the Russian Ministry of Energy.

Rosneft allocates substantial funds to improve the OHS management system. In 2016 the Company's health and safety expenditures totaled RUB 34,344 million.

To ensure safe operations, Rosneft takes constant measures to minimize injuries and accidents in connection with work performed by contractors. Efforts are under way to stiffen health and safety requirements for contractors, including preventive measures at the procurement stage, and to increase contractor responsibility for failing to abide by health and safety rules and requirements. Rosneft works with contractors to create effective motivation schemes to encourage safe practices and performs regular safety inspections of work done by contractors' employees, including as part of process control.

ASSESSMENT OF THE HSE COMPETENCIES OF HSE LEADS AND EXPERTS, CHIEF ENGINEERS AND GENERAL DIRECTORS

The first part of a project to assess the HSE competencies of HSE leads and experts and chief engineers and general directors of Group entities in the Commerce and Logistics segment and the Distribution and Sales segment was completed in 2016. The project's main objective was to develop the competencies of HSE leads and experts at Group entities and to ensure that the segment has a strategic pool of talent to draw on. In 2016, competency assessment forms, test questions, self-assessment questions, situational cases and questions for competency interviews were developed. Employees were tested, the results were analyzed, and professional competency profiles were created. Interviews were done to determine management competencies. The second part of the project, planned for 2017, involves the formulation of personal development plans for HSE leads and experts, assessment of the HSE competencies of general directors and chief engineers, approval of the project's results by the HR committee in the Commerce and Logistics segment and further monitoring of competency development by mentors.

ANNUAL MEETING WITH GENERAL DIRECTORS TO DISCUSS PROGRESS ON HSE IN 2015 AND PLANS FOR 2016

In 2016, meetings were held with the heads of Group entities in each business line to discuss the progress made on HSE in 2015 and to formulate goals and tasks for 2016. The proceedings took the form of presentations by representatives of Rosneft headquarters and Group entities, open dialogs, training seminars and exchanges of best practices.

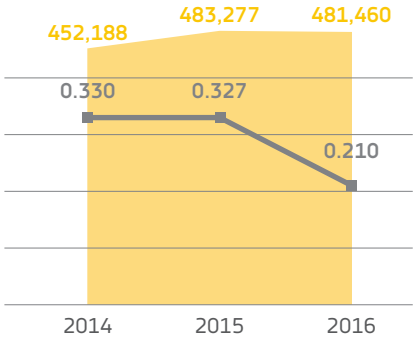
HEALTH AND SAFETY PERFORMANCE IN 2016

Occupational health and safety

The injury level was lower in 2016 than the year before. Work-related injuries were down more than 30% at Rosneft and 21% at the Company's contractors. This reduced injury level was a result of Rosneft's systematic efforts to create safe and healthy working conditions for employees.

In 2016 Rosneft recorded a total of 89 incidents, resulting in 101 injuries, 11 of which were fatal. The Service segment and the Exploration and Production segment, due to the specifics of their operations, had the highest number of incidents.

Group entities recorded 99 incidents last year involving employees of contractors, resulting in 121 injuries, 43 fatal (19 died in the crash of a Mi-8 helicopter operated by Skol Airline).



Incidence rate of non-fatal injuries (per million hours worked)

Total number of man-hours worked, thousand man-hours worked

Injury rates at the Company and its contractors

DESCRIPTION	2014	2015	2016
Total work-related injuries - employees	149	158	101
including fatalities	18	23	11
Total work-related injuries – contractors	97	126	121
including fatalities	19	22	43
Incidence rate of fatal injuries (per 100 million hours worked)	3.981	4.759	2.285
the same rate per million hours worked	0.040	0.048	0.023
Incidence rate of non-fatal injuries (per million hours worked)	0.330	0.327	0.210
the same rate per 200,000 hours worked	0.066	0.065	0.042
Incidence rate of road injuries (per million kilometers of mileage)	0.053	0.055	0.038
excluding injuries due the fault of third parties	0.005	0.020	0.023
Lost-time incident rate (days away from work due to an incident or occupational illness per million hours worked)	12.015	18.267	17.432
the same rate per 200,000 hours worked	2.403	3.653	3.486
Incidence rate of occupational illnesses (per million hours worked)	0.097	0.118	0.116
the same rate per 200,000 hours worked	0.019	0.024	0.023

Behavior-based safety inspections to identify and prevent potentially dangerous situations at Group entities are among the most important ways of reducing injuries. Such inspections involve observing an employee's behavior and area during the work process in order to identify the causes of dangerous behavior. Based on a subsequent discussion with the employee, a model of safe behavior can be formulated and reinforced in the future. Managers and experts at all levels act as inspectors. Behavior-based inspections are a key part of creating a culture of safety.

Rosneft makes systematic efforts to ensure the timely supply of high-quality personal protective equipment for its employees. In 2016, 52 technical specifications/standards were developed and registered for special workwear (including protective suits, vests, robes, headgear, undergarments and uniforms) to meet the needs of Group entities.

Rosneft also makes systematic efforts to ensure road safety in accordance with its Transport Safety System Regulation.

Industrial safety

Rosneft makes systematic efforts to prevent accidents at production facilities and takes measures necessary to minimize the number of accidents.

The following efforts to enhance Rosneft's industrial safety system can be singled out in 2016:

- members of certification boards in business segments were trained and certified by the Federal Service for Environmental, Technical and Nuclear Oversight, and in-house certification boards assessed the industrial safety competency of Rosneft employees
- Rosneft guidelines were approved regaled to formation and contents of emergency stores of special devices, tools, materials and clothing as well as safety and personal protection equipment needed to liquidate controlled and uncontrolled flows of gas, oil and water
- Rosneft's central procurement committee approved standard industrial safety criteria for use in procurement.

MONITORING BLOWOUT PREVENTION

Experts in the Gas segment and members of militarized blowout prevention units attached to Rosneft wells work to prevent controlled and uncontrolled flows of gas, oil and water. Rosneft has developed and implemented a group of measures to improve the system of blowout prevention and monitoring of Group entities. Preventive measures include the study and analysis of design documentation and the systematic inspection and study of operations and technological processes at Group entities and outside organizations involved in well construction, development, study, testing, stimulation, operation and repair.

Rosneft has developed and implemented a Blowout Prevention Status Checklist. Personnel responsible for monitoring wellhead quality go through regular training exercises. Management and experts in the Gas segment have been successful in preventing controlled and uncontrolled flows of gas, oil and water at production sites and ensuring the quality of such work as well construction and repair, thus eliminating further repair costs and other complications in connection with well operation.

GROUP OF TRANSPORT SAFETY MEASURES: "FOUR LEVELS OF ROAD SAFETY"

In 2016, as part of Company-wide efforts to enhance road safety, Group entities in the Exploration and Production, Internal Service and Gas segments developed and implemented a group of transport safety measures – "Four Levels of Road Safety" – to minimize the level of accidents involving vehicles used for Company purposes.

The measures cover all levels of road safety – from driver to corporate center – and include the formation of transport safety committees at Group entities and contractors. The measures – designed to strengthen safety requirements for road transport – include equipping each vehicle with two-way dashboard cameras and in-vehicle monitoring systems and giving drivers additional training in safe driving and winter driving. Rosneft Group entities also hold preventive and seasonal road safety campaigns, including "We're for Road Safety."

Accidents at Rosneft sites

There were a few accidents at Rosneft sites resulting in fatalities and serious damage in 2016.

On 27 July 2016, a 25-cubic meters fuel gas receiver exploded during startup work at ESN-3 power plant on Verkhnechonskoye Oil and Gas Condensate Field (Irkutsk Region, Katanga District). The incident resulted in six fatalities and one minor injury.

A crisis center and an inspection team went into action immediately, a recovery plan and a list of measures to restore energy to inactive wells were developed, and priorities were set in terms of help for the victims and the families of those who died, legal support, and cooperation with regional oversight bodies.

Following the Verkhnechonskneftegaz accident, a plan of priority actions, including information, administrative and technological measures, was developed.

As a result of the serious attention given to occupational health and safety and fire safety and the development and implementation of corrective measures to minimize and prevent emergency situations, based on Russian law and best world practices, the number of accidents Company-wide was down over 10% year on year in 2016, and the number of incidents was down more than 20%.

Accidents at Rosneft facilities

DESCRIPTION	2014	2015	2016
Number of accidents[21]	10	9	8
including those with environmental impact[22]	0	5	0
Number of fires	18	19	6
Number of incidents and accidents involving controlled and uncontrolled flows of oil, gas and water	6	2	0

Fire safety

In 2016 Rosneft continued a program to upgrade and equip its firefighting service in the period of 2013-16, acquiring 180 fire trucks, 384 units of firefighting equipment and 881 tonnes of foam agent.

To increase the readiness of firefighting units and the fire-resistance of Rosneft facilities and to systematize basic fire safety rules at Rosneft sites, "Principal Areas of Support for Rosneft's Firefighting Service" were formulated.

Organizations accredited by the Russian Emergency Situations Ministry conducted fire safety inspections at Rosneft Group entities, and a number of these entities used the inspection results as a basis for programs to bring Rosneft facilities into line with fire safety requirements.

The number of oil tank fires was halved as a result of a plan to enhance the fire and explosion safety of Group entities' storage tanks.

In the second half of 2016, Group entities took measures to improve the fire safety of residential buildings at Rosneft and contractor production sites (trailers, bunkhouses in rotation villages, etc.).

In 2016, Rosneft acquired 180 fire trucks, 384 units of firefighting equipment.

In accordance with the regulation "Fire Safety Training for Rosneft Employees," the following training was provided in 2016:

- introduction to fire safety for new hires
- refresher training in fire safety with employees of the health and safety department
- fire safety training with persons responsible for evacuation from office buildings in the event of a fire
- training in fire safety basics for Rosneft management, department heads at corporate headquarters and persons responsible for fire safety instruction in business units.

21. The number of accidents excludes controlled and uncontrolled flows of oil, gas and water.
22. According to the classification of the Federal Service for Natural Resource Management, environmental impact occurs when environmental damage extends beyond an industrial site.

Those responsible for fire safety in business units of Rosneft and Group entities receive regular training: "Persons Responsible for Fire Safety: Rights, Obligations and Competencies."

In 2016 Rosneft drafted, refined and implemented new internal fire safety regulations, including:

- Rosneft's Fire Safety System
- Guidelines on Firefighting Equipment and Other Firefighting Resources at Rosneft Sites
- Guidelines on Calculation of Initial (Maximum) Prices for the Procurement of Fire-Prevention and Firefighting Services
- Guidelines related to the use of fire extinguishers to ensure that employees responding to a fire observe fire safety law and basic safety rules applicable to fire extinguishers

The Company's 2016 spending on fire safety and blowout prevention/radiation safety totaled RUB 9,913 million and RUB 1,216 million, respectively.

The Company's 2016 spending on fire safety and blowout prevention/radiation safety totaled RUB 9,913 million and RUB 1,216 million, respectively.

9,913

RUB MILLION –
fire safety expenditures
in 2016

Pipeline reliability

Rosneft gives high priority to pipeline safety and the minimization of environmental risks and is continuing work on a major program to improve pipeline reliability in the period until 2019. The program is designed to achieve a level of 30% less pipeline failures in 2019 than in 2013. By the end of 2016, the failure rate was already 24.9% below the base level. The program includes a range of measures:

- pipeline reconstruction, repairs, maintenance and inhibition
- diagnostics, internal pipe cleaning
- selection and use of the most effective pipe materials, protective coatings, chemical agents, innovative diagnostic technologies and active methods of internal and external corrosion protection
- risk-oriented methodologies

There were a total of 7,827 ruptures in 2016, and 5,034 of these involved oil spills. 694.5 tonnes of oil were spilled in 2016 – down 160.5 tonnes from the year before.

The lower pipeline failure rate in 2016 is a result of systematic annual efforts, including programs for the reconstruction and repair of Rosneft's current pipeline system, pipeline inhibition and diagnostic work.

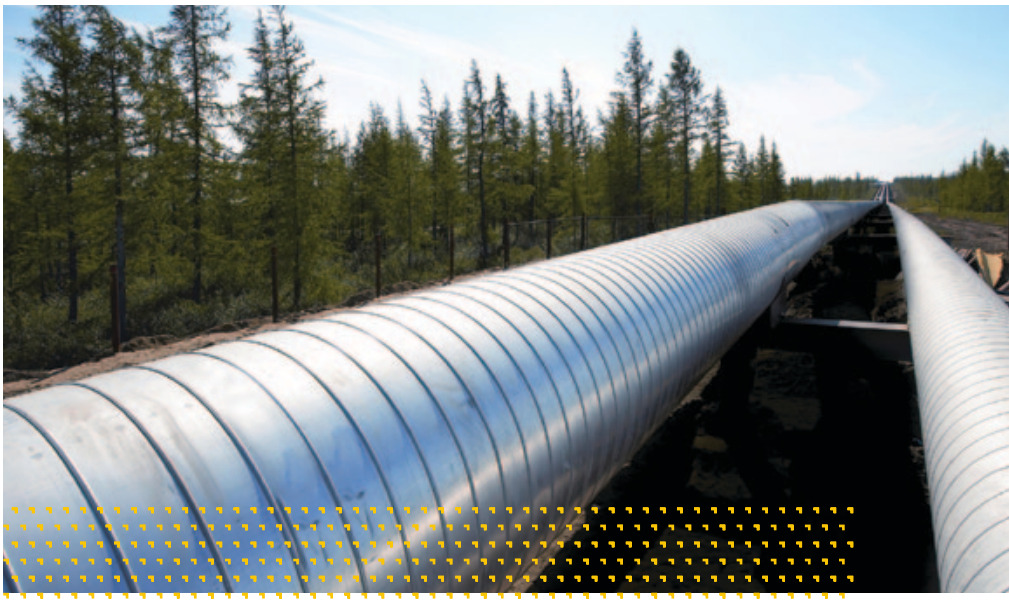
In 2016, some RUB 448 million were spent on diagnostics and industrial safety reviews of over 18,000 km of pipeline.

As in previous years, Rosneft uses innovative, state-of-the-art methods of pipeline inspection to locate defects and respond to spills in the shortest possible time. Group entities in a number of Rosneft's regions of operation are testing

(RN-Yuganskneftegaz) and making industrial use (Tomskneft, RN-Krasnodarneftegaz, Samotlorneftegaz) of drones for pipeline inspection. Aerial monitoring is a more effective way of identifying failures and allows rapid response to violations by third parties.

In 2016 Rosneft invested RUB 21.5 billion in the corporate program to improve pipeline reliability – the same level as in 2015.

Rosneft is continuing its work on a unified approach to identifying and keeping track of ruptures. The OIS Pipe software used for this purpose allows an automated record to be kept of all failures. This system covered 22 Group entities as of the end of 2016.



Pipeline ruptures and associated oil spills

DESCRIPTION	2014	2015	2016
Total pipeline ruptures (in-field oil, gas and water pipelines)	9,450	8,841	7,827
Total pipeline ruptures per million tonnes of oil and gas condensate produced	46.1	43.6	35.3
Total pipeline ruptures resulting in oil spills	6,048	5,688	5,034
Crude oil and petroleum product spills due to pipeline ruptures, tonnes	903	855	694.5
Crude oil and petroleum product spills due to pipeline ruptures per million tonnes of oil and gas condensate produced	4.4	4.2	3.1[23]
Rate of pipeline ruptures per kilometer	0.15	0.14	0.13

PROGRAMS TO REPLACE PIPELINES IN THE REFINING AND PETROCHEMICALS BUSINESS SEGMENT

In 2016 an approved program to replace chromium-molybdenum pipes that have welded joints of austenitic steel was carried out in 10 Group entities in the Oil Refining and Petrochemicals segment. The program involves the replacement of industrial chromium-molybdenum pipes that have welded joints of austenitic steel and the use of pearlite electrode welding to reduce the risk of ruptures. In addition, a program to replace carbon steel pipes that have reached the end of their service life was developed and approved for implementation at 14 Group entities.

21.5

RUB BILLION
invested in the corporate program to improve pipeline reliability in 2016

23. In 2016, the oil and gas condensate production data were taken into account in full, without considering the Company's share in the Group Entities for the purpose of the specific indicator calculation.

Pipelines: basic characteristics and safety improvements, kilometers

DESCRIPTION	2014	2015	2016
Total length of in-field pipelines	84,352	85,652	88,463
Total length of in-field pipelines in operation at period end	61,481	61,522	62,630
Reconstruction and repair of in-field pipelines	1,140	1,320	1,276
Inhibition of in-field pipelines	22,713	24,118	22,960
Internal cleaning of in-field pipelines	10,855	10,968	10,360
Diagnostics and examination of in-field pipeline safety	18,991	21,233	18,138

REMEDIATION OF OIL-CONTAMINATED SITES ON SECTIONS OF THE VANKOR FIELD – PURPE OIL PUMPING STATION MAINLINE IN 2016

Two pipeline ruptures occurred on the oil mainline in March 2016, with spills in the volume of 4.2 and 1.6 cubic meters, respectively.

To minimize the impact on the environment, Vankorneft developed and implemented a plan to contain and eliminate these emergency situations on the mainline. All of the spilled oil was recovered using special equipment and sorbents and returned to Vankorneft's oil-gathering system.

The entire contaminated area was treated with a surfactant. To prevent residual oil from leaching into the soil and migrating, the area was treated with a sphagnum peat moss sorbent, and the most seriously affected areas were treated with a hydrocarbon sorbent of moss containing humic acid.

In summer 2017, it is planned to treat the contaminated surface area with a biological agent and to plant oil-resistant perennial grasses in order to activate soil microflora. A soil analysis is planned for September 2017 to determine residual oil content, and additional measures will be taken if the findings are unsatisfactory.

REMEDIATION OF AN OIL-CONTAMINATED SITE ON RN-PURNEFTEGAZ'S SEVERO-TARASOVSKOYE FIELD

In February 2016 a fire that broke out in a cluster of wells on the Severo-Tarasovskoye Field was quickly liquidated, and the Company took immediate steps to clean up the resulting spill of petroleum-containing fluid covering 0.61 ha. The spill was contained, and the contaminated soil – as far as was reasonable to minimize damage to the environment – was removed to a disposal area on the field.

In July 2016 the biological reclamation stage was completed, and the whole affected area was planted with wild grasses. Following this reclamation work, the Department of the Federal Service for Natural Resource Management for Yamalo-Nenets Autonomous District inspected the site and made no criticisms.

18,138

KM OF PIPELINES
diagnosed and examined

EMERGENCY PREVENTION AND RESPONSE READINESS

IN 2016 ROSNEFT TOOK A RANGE OF PREVENTIVE MEASURES TO REDUCE THE RISKS OF NATURAL AND MAN-MADE DISASTERS, ENSURE MORE EFFECTIVE AND TIMELY RESPONSES TO SUCH SITUATIONS, MINIMIZE THEIR IMPACT, AND PROTECT THE EMPLOYEES AND MATERIAL ASSETS OF GROUP ENTITIES.

2,960.2

RUB MILLION –
expenditures for emergency prevention and response in 2016

Prevention and minimization of potential damage from man-made disasters

In 2016 Rosneft took a range of preventive measures to reduce the risks of natural and man-made disasters, ensure more effective and timely responses to such situations, minimize their impact, and protect the employees and material assets of Group entities.

The Crisis Management Center verified compliance by Group entities with legal and corporate requirements in the area of civil defense and emergency prevention and response, arranged teleconferences and practical training, and held a training and methodology session for the heads of Group entities' civil defense and emergency units.

To reduce the risk of accidents and prevent them from escalating into man-made disasters, Rosneft made the following ongoing efforts in 2016 as part of its improvement of core operations and HSE practices:

- use of highly reliable equipment; equipping production facilities with automated systems to control accidental emissions of hydrogen sulfide, hydrogen chloride and organic substances
- ongoing monitoring of compliance with process requirements, systematic inspections of equipment and structures at hazardous production facilities and planned testing of storage tanks and pipelines
- upgrading of fixed production assets and renewal of technical capabilities, utility systems and equipment, planned maintenance of key equipment at production facilities
- regular employee training in means of protection and appropriate behavior in emergency situations
- ensuring that civil defense units and on-site units of the Unified State Emergency Prevention and Response System at Group entities are always ready to respond to and contain emergencies (accidents, incidents)
- formation of financial and material reserves to be used for independent emergency rescue and response measures.

For purposes of emergency prevention and response, Group entities built up financial and material reserves worth a combined total of some RUB 1.8 billion. Total expenditures for emergency prevention and response came to around RUB 3 billion in 2016.

In 2016, as part of a project to implement a risk management information system for crisis situations, the software component of the system was developed and put into use on a trial basis.

Rosneft's spending on emergency prevention, RUB million

DESCRIPTION	2014	2015	2016
Expenditures for emergency prevention and response, including:[24]	3,540.6	2,951.7	2,960.2
financial and material reserves	1,662.4	1,664.57	1,728.9
maintenance of professional rescue and response teams	1,878.2	1,287.13	1,231.3

Prevention and minimization of damage from natural disasters

A range of measures to prevent and minimize potential damage were taken in 2016 to promote accident-free operations and ensure that the management and units of the Unified State Emergency Prevention and Response System are ready to respond promptly to risks of natural disasters at Group entities' facilities and sites.

Rosneft took a number of preventive measures to prepare for spring flooding in 2016, and the time when river ice would break was forecast for different federal districts. In March 2016 a command post exercise was held to promote emergency readiness and accident-free operation of sites and to ensure the safety of employees and assets during spring flooding. Anti-flood committees were formed at Group entities, preventive measures to prepare Group entities were planned and implemented, the list of sites most susceptible to flooding was updated, the readiness of the management and on-site units of the Unified State Emergency Prevention and Response System was tested, and material and technical reserves were formed well in advance. As a result of these preparations, Group entities operated without incident during the period of spring flooding.

Group entities developed and implemented a range of fire safety and response measures to prevent forest fires near oilfields, production sites and other facilities. In cooperation with the forest service of constituent entities of the Russian Federation, the fire situation was monitored in Group entities' regions of operation to ensure the informed use of firefighting forces and equipment in the Unified State Emergency Prevention and Response System.

As a result of implemented measures Rosneft sites were unaffected by natural disasters.

24. Total expenditures for 2014 exclude emergency response expenditures of RUB 349 million Emergency response expenditures in 2015 and 2016 were zero and RUB 1.3 million, respectively.

Prevention of emergency situations involving spills of oil and/or petroleum products

To ensure prompt responses to emergency situations involving spills of oil and/or petroleum products, 55 rescue and response teams, including 16 professional teams and 39 nonprofessional, have been formed and equipped at Group entities and are maintained in constant readiness. Group entities that lack their own rescue and response teams have entered into agreements with outside organizations.

Emergency-response training for employees

In order to minimize the impact of emergencies, Rosneft gives high priority to employee training as well as to the level of readiness of the management and on-site units of the Unified State Emergency Prevention and Response System. A total of 131,515 Rosneft employees received training in 2016. To check the emergency response readiness of the management of on-site units, Rosneft held 137 command post exercises, 34 comprehensive training exercises, 65 tactical training exercises and 37,828 on-site drills.

Training and methodology session in Samara.

PROGRAM TO INTRODUCE TRAINING SIMULATORS IN THE OIL REFINING AND PETROCHEMICALS SEGMENT

In 2016 a program was developed and approved for 2014-20 to introduce training simulators in the Oil Refining and Petrochemicals segment so that operating personnel at hazardous production facilities can develop practical skills and practice their responses to work-related accidents. The program will be introduced at 15 Group entities as part of refinery modernization.

A training and methodology session devoted to civil defense and emergency prevention and response was held in Samara in June 2016 to raise the professional level of the heads of Group entities' civil defense and emergency units. This event once again confirmed that Rosneft meets the highest international safety standards and makes wide-ranging efforts to prevent man-made threats and minimize natural threats in times of peace and war. The session was attended by 218 Rosneft employees.

In Q1 2016, Rosneft held its first competition for the title of best Group entity in terms of civil defense and emergency prevention and response. 129 Group entities competed in this event, based on their performance in 2015.

In 2016 the Crisis Management Center monitored the quality of emergency prevention efforts at 46 Group entities.

In 2016 the Crisis Management Center monitored the quality of emergency prevention efforts at 46 Group entities.

131,515

ROSNEFT EMPLOYEES
received emergency response training in 2016

ENVIRONMENT

The Company's environmental mission is to effectively manage the potential impact of its operations in order to maintain the integrity of the environment for present and future generations. Rosneft aims to achieve leading position in environmental safety among oil and gas companies.

ENVIRONMENTAL PROTECTION LIES AT THE HEART OF THE COMPANY'S CORPORATE CULTURE, DRIVING ITS SUSTAINABLE DEVELOPMENT.

ENVIRONMENTAL MANAGEMENT SYSTEM

Rosneft strives to do business in harmony with the environmental and economic interests of local communities. Environmental protection lies at the heart of the Company's corporate culture, driving its sustainable development. 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, including by enhancing its products and processes, as well as improving the working conditions for its employees and partners.

In line with its Environmental Protection and Occupational Health and Safety Policy, Rosneft has established and maintains an integrated HSE system, which is part of the wider governance system and combines processes, rules, procedures, structures and resources needed to achieve the Company's goals in this area. The system is founded on the principles of continuous improvement, preventive action and the engagement of employees at all levels in ensuring occupational safety and mitigating any adverse impact on the environment. Following an ISO 14001 compliance audit in 2016, supervisory bodies confirmed that the integrated management system was duly established, maintained and improved. The system's corporate certification process was extended to five new Group entities in 2016 and covered a total of 50 entities by the end of the year.

The Company continually improves its environmental management system in order to achieve the environmental goals and to comply with the principles established in the Federal Law on Environmental Protection.

Pursuant to the Company's strategy and Long-Term Development Program, the Board of Directors approved in 2014 strategic targets (target values) and key activities in the area of environmental safety. The following year, the Company adopted an Environmental Protection Policy to establish the relevant core principles and objectives.

The year 2015 saw the adoption of a Program for the Preservation of the Biological Diversity of marine ecosystems for license blocks in Russia's Arctic region for the period until 2020.

In 2016 the environmental management system was supplemented with an Environmental Management Efficiency Program for the period until 2025, which outlines a relevant approach and describes a list of administrative and technical measures to achieve environmental target values set in the Company's Long-Term Development Program. Drawing on the Environmental Management Efficiency Program, Group entities will be in a position to effectively monitor environmental risks, develop action plans for mitigating immediate and future adverse effects on the environment and secure the long-term funding of the planned initiatives. Actions taken under the Program will contribute to the achievement of relevant environmental protection goals in each line of business.

In 2016 the Company also established a set of key performance indicators (KPIs), which are linked to environmental strategic targets outlined in the Long-Term Development Program and are designed to encourage management to perform better to achieve the set targets. These metrics were cascaded to 2016 individual KPIs of HSE heads in the Exploration and Production, Oil Refining and Petrochemicals, Distribution and Sales, Natural Gas and Oilfield Services segments, as well as chiefs of environmental safety and technologies department.

The 2016 initiatives culminated into a group-wide Comprehensive Program for HSE Efficiency Improvement that includes the activities outlined in the Environmental Management Efficiency Program for the period until 2025 and the Program for Preservation of the Biological Diversity of marine ecosystems for license areas in Russia's Arctic region for the period until 2020.

Steps taken to preserve a healthy and sustainable environment, such as disturbed lands rehabilitation, production and consumption waste management, wastewater treatment, helped to achieve 90% of the environmental target values set for 2016[25].

ROSNEFT ENVIRONMENTAL MANAGEMENT SYSTEM

2014	**Strategy and 2030 Long-Term Development Strategy** strategic targets, target values, key activities
2015	**Environmental Protection Policy** the Company's mission, goals, principles and key goals
2015	**Standard environmental criteria for use in procurement of key environmental services** waste management, land restoration, baseline monitoring, environmental supervision, sludge removal
2015	**Program on the preservation of the biological diversity** of marine ecosystems for license areas in Russia's Arctic region for the period until 2020
2016	**Environmental Management Efficiency Program for the period until 2025** achievement of the environmental target values, approved by the Company's Long-Term Development Program

25. Annex 3. Progress against the 2016 environmental sustainability targets.

The Company has an established process to track progress toward environmental goals on a monthly and quarterly basis based on reports submitted by Group entities. There are also progress reports on the Long-Term Development Program (including environmental protection activities) that are reviewed by internal and external auditors on an annual basis.

Preserving biological diversity of marine ecosystems in Russia's Arctic region

The Company took a number of important steps in 2016 under the Program for the Preservation of the Biological Diversity in the Marine Ecosystems for its license areas in Russia's Arctic region.

The Company completed the first phase and went into the second phase of the research work aimed at (I) identifying indicator species whose presence is a sign of the overall health of marine ecosystems within Rosneft's license areas, and (II) developing methodologies and standard environmental programs for monitoring and preserving the biodiversity in Russia's Arctic region.

The Company compiled and published an environmental atlas of the Kara Sea, which contains the most recent information about the key parameters, biological diversity and environmental sensitivity of the Kara Sea shoreline, classified by the Environmental Sensitivity Index (ESI) method. With over 70 thematic maps (in addition to the narrative part), the atlas offers insights into the Kara Sea region from various perspectives, including the physical, geographical, hydrological and metocean characteristics, history of research and economic development of the Kara Sea and adjacent areas.

ENVIRONMENTAL MANAGEMENT EFFICIENCY PROGRAM FOR THE PERIOD UNTIL 2025

Under the Environmental Management Efficiency Program, environmental protection activities are planned to be developed and introduced across Group entities and business segments to achieve the following goals:

- Meeting current environmental obligations in a timely manner: reduce pollutant concentrations, production waste and accumulated waste, and reintroduce production and consumption waste into the economic cycle
- Protecting water bodies: reduce industrial pollutant load in wastewater discharged via own centralized drainage systems
- Protecting air: reduce total pollutant emissions

The Program includes an analysis of environmental performance indicators, current and future operating schedules, actions taken and their results, as well as registers of estimated environmental obligations. Findings from the analysis are used to assess the ecological health and status of environmentally protected areas and to conclude whether planned environmental activities are aligned with operating schedules and investment goals. Potential sources of adverse environmental effects are then identified and recorded. The final phase of the Program consists of short- and long-term planning and environmental protection activities. Once these activities are completed, their results are matched against the set targets, with relevant corrective actions taken where necessary.

Drawing on the experience gained during previous research, the Company has started to prepare (I) recommendations for conducting marine mammal observations and seabird surveys and (II) guidance on mitigating adverse environmental impacts from exploration activities, taking into account the following specifics of the Arctic Ocean:

- Species diversity, especially in the coastal areas of the Arctic islands and protected areas, including the islands of Novaya Zemlya, Severnaya Zemlya, the New Siberian Islands, Frantz Josef Land, Wrangel Island, etc.
- Ice and metocean conditions
- Physico-geographical features, including daylight hours, low temperatures, etc.
- Regional specifics of exploration activities off the Russian Arctic coast

The Company has completed comprehensive fieldwork research on waters and seabed in the north-eastern part of the Kara Sea in order to assess the current state of the environment. Baseline data on the North Kara license area was collected from 45 environmental research stations to feed into an EIA exercise under the 2017-20 Integrated Geophysical Survey Program and into follow-up activities to identify potential limiting factors to offshore exploration.

The Company has completed the fieldwork phase of a project to develop software and methodological guidelines for comprehensive mapping of benthic habitats and underwater landscape elements of Arctic seas through side-scan and multi-beam sonar surveys and spot sampling from a depth of 10–50 meters. The work was aimed at optimizing the existing benthic monitoring techniques. The findings from this phase will help to make a better use of research data acquired in the course of geotechnical surveys of license areas conducted as part of exploration activities and incorporate them into benthic monitoring plans.

During the Kara-Summer 2016, the company continued studies on polar bears, a key indicator species of marine ecosystem health, and embarked on a study of walruses and their fooder base, which was for the first time ever in the history of its large-scale scientific expeditions.

The Company has complied and published a brochure titled “King of the Arctic. Comprehensive study of polar bear populations in target development areas in the Russian Arctic”, which describes key methods and approaches used in research activities conducted for the Arctic Scientific Center since 2014. The brochure was distributed among participants of the 2016 St. Petersburg International Economic Forum.

Fifty camera traps, which had been set in the Wrangel Island nature reserve in 2015, captured unique images of polar bears in their natural habitat.

POLAR BEAR STUDIES DURING ARCTIC EXPEDITIONS

During interdisciplinary Arctic expeditions, the Company conducts studies on polar bears using advanced technologies. These studies are part of a wider national program undertaken by Rosneft to preserve and protect polar bears both in their natural habitat and in captivity.

The Company gathered unique data on polar bear migration in 2016. During the Kara-Winter 2015 expedition, scientists fitted a female bear with a satellite telemetry collar to track its movement, which helped them find its den in a remote location. Knowing the exact location of maternity denning areas is critical for developing and implementing effective strategies to preserve polar bear populations.

Russian-made satellite monitoring systems enable scientists to obtain near real-time information about the speed and distance traveled by the animal, its preferred habitat and reaction to changes in the environment.

Studies on polar bears showed significant differences in movement patterns: some radio-collared animals preferred long runs, while others traveled relatively short distances. Individual tracks varied from 200 to 1,500 km per month, with the habitat area over the eight-month observation period ranging from 100 to 200,000 sq. km. According to scientists, this is due to individual differences between animals and differences between their habitats.

HSE Board

The Company established a Health, Safety and Environment Board (the "HSE Board") in 2016 to improve group-wide communications under a three-tier HSE governance model. The HSE Board is comprised of HSE leaders from operating units and is chaired by Vice President for HSE.

The HSE Board has the following focus:

- Analyzing HSE performance and determining areas of top priority
- Improving HSE processes, including through new or revised internal regulations
- Considering and evaluating best international HSE practices and deciding as to whether they should be adopted
- Considering and analyzing major emergencies in the Company and in the oil and gas industry and taking corrective or preventive actions.

Improving environmental awareness

In 2016 the Company developed a package of measures to improve environmental awareness. Initiatives planned for 2016 were completed in full. They were focused on the following:

- Promoting environmental awareness among employees, contractors and visitors (through messages from Rosneft leaders urging care for property, resources and the environment in regions of operation, campaigns to inspire environmental stewardship, compliance and better sustainability performance, etc.)
- Motivating pro-environmental behavior across the entire Group, from employees to business units and subsidiaries, and among contractors (by developing and introducing environmental KPIs, holding corporate environmental contests, rewarding top performers and establishing corporate environmental ratings)
- Maintaining and improving environmental safety (by demonstrating commitment to environmental excellence and compliance with Russian environmental laws during business trips, inspections and site visits, inspecting production facilities, sites and contractors for compliance with environmental laws and local internal regulations (with such inspections held by managers and employees of business units), tracking environmental performance against goals and providing local and central management with environmental updates and risk assessments and informing them of any issues revealed)
- Sharing the mission of good environmental stewardship with external stakeholders (by distributing information about the Company's environmental initiatives, achievements and best practices in mass media, organizing and participating in partner events, liaising with public authorities, academia, universities, non-governmental environmental organizations, etc.).

FAMILY ENVIRONMENTAL CONTEST "IN SEARCH OF ENDANGERED SPECIES"

In 2016 the Company organized the contest "In Search of Endangered Species" for its employees and their family members. The contest helped to raise environmental awareness among Company employees and their family members, improve environmental knowledge, build a connection to the environment and foster the team spirit.

A total of 80 teams comprising children of Company employees and employees of sponsored organizations took part in the contest. Each team was supposed to show their knowledge of especially protected and endangered species in Russia. Following the contest, the panel named 13 winning teams in five categories and awarded prizes to all winners.

PARTICIPATION IN ECOTECH-2016 INTERNATIONAL EXHIBITION AND FORUM

In 2016 Company representatives took part in ECOTECH international exhibition and forum sponsored by Rosneft. The forum's mission is promote Russia's transition to a green economy. The forum offered various opportunities for networking and exchange of knowledge and ideas between participants.

Rosneft had its own stand to showcase key achievements in green technologies.

The Company organized a roundtable on collaborative business efforts in addressing common sustainability concerns for representatives of Russian and foreign oil and gas companies (BP, Gazprom, Gazprom Neft, LUKOIL, Surgutneftegaz, Tatneft, NOVATEK, YAMAL LNG, Zarubezhneft, RussNeft, etc.) as well as for business partners in charge of sustainability management. Participants discussed a number of hot topics, including production waste management and introduction of best available techniques, and exchanged their relevant experience.

The event featured a panel discussion among representatives of Russian research centers and universities (the Russian Academy of Sciences, Gubkin Russian State University of Oil and Gas, Admiral Makarov State University of Maritime and Inland Shipping and St. Petersburg State Marine Technical University) themed "Cooperation between academia, education and business in developing innovative technologies and sustainability practices. Rosneft case: takeaways and future prospects." Participants discussed the key outcomes of collaborative efforts between Rosneft and research organizations in developing and deploying innovative environmental technologies, and the most promising avenues going forward.

Rosneft's partners highlighted successful efforts led by the Company in developing a method for microbial hydrocarbon

degradation in Arctic seas (Innopraktika Foundation), conducting studies on polar bears (the Marine Mammal Council), providing information support of offshore environmental projects in the Arctic (Lomonosov Moscow State University), deploying an innovative technology involving the use of metal oxide solar cells (a Branch of the Institute of Biochemical Physics under the Russian Academy of Sciences) and a drilling waste injection technology (RN-Uvatneftegaz and Samotlorneftegaz).

The discussion also covered other important topics, including the following:

- Innovations in the area of offshore environmental engineering (glider platforms as a means of offshore environmental monitoring and safety control; innovative research on leak detection methods for subsea oil pipelines and wellhead systems, etc.)
- Impact of natural and mad-made hazards on oil and gas fields (development, buildings and structures, the surface and subsurface environment, etc.) and environmental concerns associated with shale gas production (subsidence, heave, earthquakes, shifts in the hydrologic cycle, dislocation of the strata, etc.)
- Integrated gas monitoring appliances (an intelligent wireless e-Nose) to measure mercaptans in ambient air and detect gas leaks from gas storage systems
- Environmental safety technologies (energy-saving solutions for deep conversion of heavy feedstock and production of fuels with improved environmental properties; improved water conditioning and wastewater treatment; neutralization of oil and gas waste; novel "green" reagents: threshold scale inhibitors and nano-sorbents/biodegradors).

Rosneft also conducted bilateral consultation with BP to discuss common environmental objectives (accounting for greenhouse gas emissions, etc.) and share best practices to reduce greenhouse gas emissions.

Environmental liability insurance

Rosneft runs voluntary environmental programs, including a voluntary environmental liability insurance scheme using a risk management tool to shift the potential financial burden from the occurrence of insured events to the insurer. The Company's 2014-16 general liability insurance program covering environmental liability is designed to protect Rosneft, its entities and affiliates, including foreign projects, against the potential liability that may arise across its current and future operations.

Innovative activities

Rosneft continues to build strong technological and other capabilities under its environmental innovation program to address the environmental challenges that Group entities are faced with.

An environmental institute was established at SamaraNIPIneft in 2016 to assess best sustainability practices in manufacturing and the provision of services and to help the Company to deploy them.

The Company also came up with a concept for a Corporate Environmental Center of Excellence and Expertise. The concept describes the Center's phased development, key goals, strategic objectives and approaches, including its role as a coordinator between the Company's relevant business units and Group entities.

Environmental expenditures

The Company contributed RUB 47.1 billion in direct and indirect investment in environmental protection and sustainable use of natural resources in 2016. The overall 2016 spending on environmental sustainability totaled RUB 73.7 billion.

Despite a growing perimeter as result of the Bashneft acquisition, the Company managed to maintain its operating costs at the 2015 level without cutting down on its environmental initiatives. Environmental cost savings in 2016 were largely driven by a 24% decrease in charges for adverse environmental effects, primarily due to reduction in gas flaring and associated charges.

International collaboration and cooperation with environmental organizations

In 2016 Rosneft and the World Wildlife Fund (WWF) in Russia held a series of bilateral consultations under the program aimed at preserving biological diversity and reducing the environmental impact of oil spills. On its website, the Company posted information for oil and gas companies willing to participate in an environmental responsibility rating, a joint initiative of

Environmental expenditures, RUB million

INDICATOR	2014	2015	2016
Environmental capital expenditures	36,930	44,646	47,137
Operating environmental expenditures, RUB million	21,803	27,000	26,578
Payments to budgets at all levels associated with environmental protection and the sustainable use of natural resources	4,134	5,153	4,512
including charges for adverse environmental effects	1,819	2,621	1,990
including compensation for environmental damage	969	997	1,293
Pollution fines	88	201	260
Non-financial sanctions, cases	0	0	0

Environmental capital expenditures, RUB million

INDICATOR	2014	2015	2016
Environmental capital expenditures, including	36,930	44,646[26]	47,137
Special Environmental Program	340	210	207
capital construction of major environmental protection facilities	9,343	7,653	8,142
materials and equipment	38	83	229
associated investment	22,977	29,919	34,393
other	4,232	6,780	4,166

26. The value was increased by one by rounding up.

CREON Energy and WWF-Russia in collaboration with the National Rating Agency and UNDP/GEF-Russian Ministry of Natural Resources. The representatives of the Company's environmental team contributed to the discussion of the rating methodology and results. Company experts also took part in the conference "Marine Mammals of the Holarctic" as speakers, presenting their reports on polar bears researching and protection.

Throughout 2016, Rosneft was working closely with the Russian National Committee for the United Nations Environment Program (UNEP) under the existing bilateral cooperation agreement. Drawing on analytical and information support, the Company gained insight into the activities of Russian federal legislative and executive authorities, international intergovernmental non-governmental organizations, national and foreign business associations to advance the environmental agenda in the energy sector.

On the sidelines of the 20th International Economic Forum in St. Petersburg, Rosneft signed a cooperation agreement with BP p.l.c. aimed primarily at maintaining and improving environmental performance in joint oil and gas projects. The parties also agreed to exchange technologies and share experience in the area of environmental management, including emissions control.

Cooperation with regulators

As members of technical working group, Company employees contributed to the development of Best Available Techniques (BAT) reference documents, which were subsequently approved by the Federal Agency for Technical Regulation and Metrology (Rosstandart). The reference documents covered a number of aspects, such as disposal of production and consumption waste, general principles of industrial environmental control, waste decontamination (except thermal decontamination), and treatment of air pollutant emissions generated from manufacturing processes, work or services at major production enterprises.

Rosneft put its employees forward as members of technical working group tasked with the development of BAT reference documents on crude oil and natural gas production, oil refining, natural and associated gas processing. The documents are scheduled for approval in 2017.

In the lead-up to 2017, which was declared as the Year of Ecology in Russia, the Company prepared a draft order approving a set of dedicated initiatives to be implemented on a group-wide basis and at a subsidiary level, including additional environmental protection initiatives. Rosneft also agreed to cooperate with the Russian Ministry of Natural Resources and Ecology and the Federal Supervisory Natural Resources Management Service in organizing events for the Year of Ecology in Russia, with the relevant cooperation agreement signed on 26 December 2016. The agreement envisages eight major environmental investment projects to be implemented at Group entities, including the construction/upgrading of local treatment facilities, gas injection plants and other capital facilities worth over RUB 26 billion in total.

47.1

RUB BILLION –
investments in environmental protection and sustainable use of natural resources

Key environmental initiatives in 2016: exploration and production

The Company placed a significant focus on improving waste management across its exploration and production business in 2016 by expanding its waste disposal facilities meeting regulatory requirements.

In 2016 RN-Yuganskneftegaz and Nizhnevartovsk oil and gas producing company completed work to dispose of legacy drilling waste[27] and removed waste sumps. RN-Uvatneftegaz injected more than 88,000 cubic meters of drilling waste deep into formation.

RN-Yuganeskneftegaz continues the construction of waste disposal sites at the Malobalykskoye, Pravdinskoye and Asomkinskoye fields, with around RUB 76.2 million spent in 2016.

In 2016 Samaraneftegaz put into operation a facility for the disposal of petroleum-contaminated soil and treatment of oily wastewater at the Gorbatovskoye field with an annual capacity of around 12,000 tonnes. The company spent around RUB 87 million on its environmental construction program in 2016. Similar facilities for the Yablonevskoye and Kuleshovskoye fields are planned to be completed and put into operation in 2017-18.

East Siberian Oil and Gas Company completed construction and installation work to start Phase 2 in the Sludge Collector No. 2 Project at the Yurubcheno-Tokhomskoye field. Work was also completed to prepare project documentation for upgrading an existing landfill site for solid household waste; wastewater treatment facilities worth RUB 65.7 million were put into operation.

In 2016 RN-Yuganskneftegaz established a dedicated environmental unit to manage oil-spill response and remediation activities. This will allow for timely containment and cleanup of oil spills, thus reducing the impact area.

In 2016 RN-Shelf-Arctic delivered on its strategic objective to conduct exploration activities in a sustainable manner in accordance with obligations assumed under the relevant licenses. Action to minimize disturbance to the environment was taken almost at all license areas included in the exploration program.

Key environmental initiatives in 2016: gas business

In 2016 Rosneft met the environmental targets set in the Long-term Development Program for the natural gas business. The set target of zero drilling waste accumulation was exceeded by 50%. As a result of planned waste management activities undertaken by contractors, Rospan International disposed of all waste accumulated in 2014-16 and reduced the volume of drill mud and cuttings by 52%. The company also negotiated a major discount on drilling waste disposal services provided by third parties.

Two major players in the natural gas business, Rospan International and Kynsko-Chaselskoye Neftegaz, developed and implemented plans to prepare for inspections conducted by the Federal Supervisory Natural Resources Management Service (Rosprirodnadzor). As a result, the regulator imposed no fines on Rosneft or either of these two entities.

Environmental monitoring programs were developed and approved for the Minkhovsky, Karkasny and Yuzhno-Kustarnikovy sites, with baseline surveys completed to assess initial site contamination. The survey reports were submitted for filing to Rosgeolfond.

Environmental spending in 2016 increased by 155% from the previous year. The funds will be channeled to Rospan International for the construction of major facilities, including Integrated Gas Treatment Plant No. 1 at the Novo-Urengoy license area, Integrated Gas Treatment Plant No. 2 at the Vostochno-Urengoy license area (complete with an industrial stormwater runoff facility), and an APG compressor station and facilities for the disposal of treated wastewater originating from Valanginian deposits at the Vostochno-Urengoysky license area. The commissioning of these facilities will help minimize the environmental impact from Rospan's operations.

27. Legacy waste is waste and pollutants generated by third parties previously in the areas and/or at the sites, which are currently operated or used by the Company.

Key environmental initiatives in 2016: oil refining and petrochemicals

While building environmental protection infrastructure and improving environmental compliance is central to reducing the overall impact of downstream operations on the environment, Rosneft is working to improve its capabilities:

- Angarsk Petrochemical Company is building an advanced wastewater treatment facility worth around RUB 1.6 billion, which is scheduled to be completed and commissioned in 2020. The company continued construction work in 2016, spending around RUB 101.06 million. As part of a wider initiative to ensure the effective management of production and consumption waste, Angarsk Petrochemical Company also plans to build an industrial waste disposal site. A corresponding Project Investment Memorandum (PIM) was approved in 2016. The project will provide the company with required waste disposal capacity for the next 25 years. The site is scheduled to be completed and commissioned in 2020. The estimated project cost is around RUB 2.2 billion.
- Novokuybyshevsk Oil and Additive Plant finalized design documentation and began the construction of an industrial wastewater treatment plant and a water reuse unit (No. 3). As part of construction and installation work that commenced at the site in 2015, the company laid foundations, mounted pressure-washer filters and installed equipment installed at the mechanical and chemical treatment unit. Two equalization tanks and two holding tanks were constructed and installed in 2016. A metal frame structure for the wastewater treatment plant and the water reuse unit was erected. The project's tentative cost is RUB 1.2 billion.

In 2016 the Kuibyshev refinery put into operation a fluid-catalytic cracking plant in lieu of the older plant with its depreciated and obsolete components. The volume of air emissions, including soot, sulfur dioxide, hydrogen sulfide, carbon monoxide, hydrocarbons and vanadium pentoxide, decreased by 2,034.8 tonnes per year.

Another project was the upgrading of a water reuse unit (No. 2) at the Kuibyshev refinery in 2016. The upgrading delivered significant water and energy savings (150 cubic meters per hour and 214 kWh), while air emissions dropped by 239.27 tonnes per year.

Angarsk Petrochemical Company is building an advanced wastewater treatment facility.

Angarsk Petrochemical Company removed five inactive concrete storage tanks.

A program to install floating-roofs tanks has been developed and is currently implemented at the Nizhnevartovsk oil refining association, as well as at the Novokuibyshevsk, Ryazan, Syzran and Komsomolsk refineries in order to minimize the emissions of volatile organic compounds.

Key environmental initiatives in 2016: distribution and sales

Rosneft continued an extensive environmental program across its sales and distribution entities in 2016, with the most focus placed on the construction and upgrading of treatment facilities.

In 2016 RN-Tuapsenefteprodukt continued construction and installation work on Phase 3 and Phase 4 of the project to build industrial and storm wastewater treatment facilities on the left bank of the river Tuapse. The total costs of the project are estimated at around RUB 1.5 billion. The facilities are scheduled to be completed and commissioned in 2020.

The new treatment facilities will deliver up to 1 million cubic meters in annual water savings coming from the on-site reuse of treated wastewater for industrial and other purposes. Upgrades of existing wastewater treatment equipment will also help to reduce total pollutant discharges.

RN-Nakhodkanefteprodukt completed Phase 1 of the project involving the reconstruction of industrial and storm wastewater treatment infrastructure, with relevant facilities built, erected and commissioned in 2016. The project is divided into eight phases. Once it is complete, the company will meet the statutory limits on discharges into Novitsky Bay in the Sea of Japan through its deepwater discharge point No. 1. The total costs of the project are estimated at around RUB 1.6 billion. The facilities are scheduled to be constructed and put into operation in December 2025.

In 2016 Samaranefteprodukt continued to clean up the soil and groundwater of the Togliatti fuel storage facility contaminated with legacy oil waste. The company also continued a comprehensive environmental improvement program at the bank of the Volga river in the area of a canal. The target is to remove petroleum products from contaminated soils and prevent adverse environmental effects on the catchment area. The program's total costs are expected to be around RUB 40 million.

Protected and environmentally sensitive areas

Rosneft employs a rigorous approach to evaluating and mitigating its overall impact on biodiversity in line with major international and Russian regulations that govern economic activities at protected and environmentally sensitive areas. The Company keeps its own register of protected areas which it uses as a framework for the analysis and monitoring of their ecosystems.

The register is updated on a regular basis. In 2016 the Company operated within, or in the immediate vicinity of, 224 protected areas or areas of high biodiversity. Group entities conduct ongoing environmental monitoring to assess the impact of their production facilities on biodiversity. While the assessment revealed no risks for protected areas or areas of high biodiversity, the Company developed and introduced plans/programs to preserve biodiversity.

ENVIRONMENTAL PERFORMANCE IN 2016

Air pollution

Emissions from flaring of associated petroleum gas (APG) are the most significant source of air pollution from the Company's operations. The Company scaled down APG flaring and, hence, its total emissions in 2016, due to measures taken under its Gas Investment Program. Overall, the Company managed to decrease its total air pollutant emissions in 2016 from the previous year, except in its downstream operations, where air emissions increased by 21% solely as a result of acquiring Bashneft's refineries[28].

28. Bashneft's key sustainability performance indicators for 2014-15 and Q1-Q3 2016 are provided in Annex 4.

Air pollutant emissions by business segment[29], thousand tonnes

INDICATOR	2014	2015	2016
Total air pollutant emissions, including:	1,619	1,575	1,554
oil and gas production	1,436	1,393	1,342
oil refining	144	139	168
gas business	18	16	18
distribution and sales	17	19	19
oilfield services	3	8	7

Air emissions by pollutant[30], thousand tonnes

INDICATOR	2014	2015	2016
Total air pollutant emissions, including:	1,619	1,575	1,554
particulate matter	86	87	84
sulfur dioxide	58	55	61
carbon monoxide	828	810	783
nitrogen oxide	49	50	50
hydrocarbons (excl. volatile organic compounds)	326	282	282
volatile organic compounds	266	288	290
benz(a)pyrene	0.000011	0.000014	0.000022
other	6	3	6

Rate of air pollutant emissions, tonnes per thousand tonnes of coal equivalent

ПОКАЗАТЕЛЬ	2014	2015	2016
SO_2 emissions			
oil and gas production	0.05	0.05	0.05
oil refining and petrochemicals	0.34	0.30	0.34
NO_x emissions			
oil and gas production	0.10	0.09	0.09
oil refining and petrochemicals	0.11	0.13	0.13
Hydrocarbon emissions (incl. volatile organic compounds)			
oil and gas production	1.39	1.24	1.24
oil refining and petrochemicals	0.66	0.63	0.80

29. Numbers may not add up to totals due to rounding.
30. Numbers may not add up to totals due to rounding.

Greenhouse gas emissions

The Company is working to lower its greenhouse gas emissions through initiatives provided in its Gas Investment Program and Energy Saving Program.

Rosneft's greenhouse gas emissions totaled 76.9 million tonnes of CO_2 equivalents in 2016, with direct emissions[31] standing at 52.4 million tonnes of CO_2 equivalents and indirect emissions from the consumption of purchased electricity and heat[32] at 24.5 million tonnes of CO_2 equivalents[33].

Use of associated petroleum gas

Rosneft continued with its dedicated gas program in 2016, bringing the utilization rate of associated petroleum gas (APG) up to 90.0%[34], or 2.1 percentage points above the 2015 level.

However, the development of new assets that the Company had to launch in order to keep growing causes it to delay the achievement of the overall APG utilization rate target of 95% that was earlier set by the Russian Government. In 2012, the Russian Government adopted a decree to set another utilization rate target – the APG flaring rate should not exceed 5% of production. The calculation of this rate shall exclude APG flared during scheduled maintenance at gas processing plants, gas produced during the development of new blocks, and gas in which the volume of non-hydrocarbon components is more than 50%. Rosneft is planning to reach the APG flaring target in 2021.

The progress in APG utilization in 2016 was due to a combination of the following:

- Vankorneft increased its APG utilization by 0.3 bcm, reaching the utilization rate of 94.0%, after the launch of low-pressure gas compression facilities at preliminary water discharge unit (PWDU) Yug
- RN-Shelf-Dalniy Vostok increased APG production at the Severnoye Chaivo field by 1.7 bcm due to higher oil production achieved by re-injecting gas into the formation using Sakhalin-1 infrastructure
- More gas was supplied to SIBUR Holding's facilities from the Samotlorneftegaz, Varyeganneftegaz and RN-Purneftegaz fields (an increase of 0.8 bcm)
- RN-Purneftegaz increased APG production by 0.6 bcm after putting new wells into operation at the Yuzhno-Kharampurskoye field and carrying out successful geotechnical works at the Komsomolskoye field in 2015, resulting in more gas supplied into Gazprom's gas pipeline system.

The Company launched 20 projects in 2016 to increase its APG utilization rate, which primarily included the construction and reconstruction of the following surface infrastructure:

- The low-pressure gas compression facilities at PWDU Yug of Vankorneft, the compression facilities at the oil treatment unit of the Yablonevskoye field, and the compression facilities at the preliminary water discharge unit at the Sologaevskoye field of Samaraneftegaz
- Gas transportation facilities of Varyeganneftegaz, Samaraneftegaz, Orenburgneft, and RN-Krasnodarneftegaz
- The gas turbine power plant at the East Messoyakhskoye field of Messoyakhaneftegaz
- Internal gas consumption facilities at Samaraneftegaz, Orenburgneft, and Severnaya Neft.

Capital expenditures under the APG utilization program totaled RUB 17.8 billion[35] in 2016. The Company is determined to continue the program, with construction of more than 70 APG facilities planned for 2017.

31. Scope 1 as defined in the Corporate Accounting and Reporting Standard of the Greenhouse Gas (GHG) Protocol, developed by World Business Council on Sustainable Development (WBCSD) and World Resources Institute (WRI).
32. Scope 2 as defined in the above standard.
33. GHG emissions estimation is performed in accordance with the Quantitative Greenhouse Gas Emission Estimation Methodologies for Organizations Engaged in Business and Other Activity in the Russian Federation, approved by the Russian Ministry of Natural Resources and the Environment by Order No. 300 of 30 June 2015. This year the direct emissions estimation addionally includes CO_2 emissions from engine operation of transport carriers as well as from refining process, calculated in according to the Methodology.
34. Information about the sustainable use of associated petroleum gas is provided for Russian assets only.
35. VAT excluded.

Greenhouse gas emissions, tonnes of CO_2 equivalents per tonne of coal equivalent

INDICATOR	2014	2015	2016
Greenhouse gas emissions			
oil and gas production	0.161	0.141	0.143
oil refining	0.138	0.175	0.156
gas business	0.102	0.067	0.024
distribution and sales	0.014	0.007	0.007

17.8

RUB BILLION – capital expenditures under the APG utilization program in 2016

APG utilization

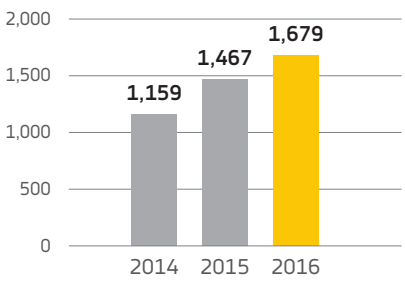
INDICATOR	2014	2015	2016
APG utilization CAPEX, RUB billion[36]	26.6[37]	13.2[37]	17.8
APG production, billion cubic meters	35.5	37.7	40.2
APG utilization, billion cubic meters	28.7	33.1	36.2
APG utilization rate, %	80.8	87.9	90.0
APG (hydrocarbons) flared as part of usual operations, billion cubic meters	6.8	4.6	4.0
APG flared, % of total APG production	19.2	12.1	10.0
Hydrocarbons venting, billion cubic meters	0.0	0.0	0.0

Water consumption and wastewater discharge

Water consumption levels at Rosneft dropped by 5% in 2016, largely due to lower production of well water that is used as an injection fluid after treatment to maintain formation pressure. Rosneft is committed to efficient and sustainable use of water resources and has implemented measures to increase the amounts of reused and recycled water by 14% in 2016 from the previous year, with the indicator being affected by the acquisition of Bashneft and the current upgrading of production facilities.

The Company is highly concerned about the quality of wastewater it discharges and continues a large-scale effort to build and upgrade centralized wastewater disposal systems at its oil refineries. This helped decrease the disposal of contaminated and poorly treated wastewater by 13% in 2016, largely as a result of launching the biological treatment plant at the Syzran refinery. In addition, the Company increased the disposal of properly treated wastewater by 5% compared with 2015.

REUSED AND RECYCLED WATER, MILLION CUBIC METERS



36. The 2014 and 2015 figures include 100% of costs incurred by Messoyakhaneftegaz, Tomskneft and Slavneft Group; the 2016 figure includes 100% of costs incurred by Messoyakhaneftegaz and Tomskneft.
37. The 2014 and 2015 figures have been updated. VAT has been excluded from CAPEX to conform to the 2016 approach.

Water consumption, million cubic meters

INDICATOR	2014	2015	2016
Use of water from all sources, including:	1,514.0	1,754.1	1,697.9
oil and gas production	1,411.0	1,642.6	1,583.8
oil refining	96.8	105.2	106.7
gas business	1.9	1.6	1.7
distribution and sales	3.0	2.3	2.2
oilfield services	1.3	2.4	3.4

Water withdrawals from all sources[38], million cubic meters

INDICATOR	2014	2015	2016
Water withdrawals from all sources[39]	1,777.4	2,053.7	1,953.7
ground water	83.9	94.2	89.6
surface water	203.4	222.3	223.1
third-party water supply networks	35.7	36.1	36.0
own reservoirs	1.1	1.3	1.2
stormwater	8.4	7.1	7.1
wastewater	106.1	113.3	114.6
produced water	1,310.7	1,563.4	1,482.5
bottom water	29.2	17.2	0.8

Produced water

INDICATOR	2014	2015	2016
Total produced water, million cubic meters	1,310.7	1,563.4	1,482.5
Injection without treatment, million cubic meters	28.5	13.2	15.6
Injection after treatment, million cubic meters	1,193.9	1,438.5	1,346.7
Produced water use, million cubic meters, including:	88.06	111.2	99.86
injections into formations	86.13	110.1	99.81
discharges into waterways	0.00	0.00	0.00
discharges into soils	1.93	1.1	0.05
Total hydrocarbons in oil and gas wastewater, thousand tonnes	17.5	18.5	19.1

38. Numbers may not add up to totals due to rounding.
39. The 2014 and 2015 figures of water withdrawals from all sources have been adjusted slightly to exclude double accounting for water received into own reservoirs.

The disposal of contaminated and poorly treated wastewater decreased by 13% in 2016, largely as a result of launching the biological treatment plant at the Syzran refinery.

Total wastewater discharges, thousand cubic meters

INDICATOR	2014	2015	2016
Wastewater discharges into third-party networks for reuse	356	307	341
Domestic wastewater discharges	92,835	71,906	70,468
Industrial wastewater discharges, including:	167,498	190,730[40]	192,510
into surface waterways	91,037	110,719	112,554
into formations	74,680	78,655	79,735
into soils, including:	1,780	1,355[40]	221
– properly treated wastewater	111,987	112,394[40]	122,617
– contaminated and poorly treated wastewater	55,511	78,336	69,894

Wastewater discharges into surface waterways, thousand cubic meters

INDICATOR	2014	2015	2016
Wastewater discharges into surface waterways, including:	91,037	110,719	112,554
oil and gas production	59	106	19
oil refining	90,434	110,058	111,945
gas business	21	20	20
distribution and sales	452	425	407
oilfield services	71	110	164

40. The amount of properly treated wastewater discharged into soils in 2015 has been adjusted.

Waste management and contaminated land remediation

Timely management of waste that is being produced and processing of previously accumulated waste are at the top of the Company's environmental agenda. In 2014, the Company set the objective to stop accumulating production and consumption waste and has succeeded in meeting it every year ever since. Despite the significant (by 35%) increase in the volume of drilling waste due to heavier production drilling, the Company took steps to effectively remove such waste from the environment, and managed to process all drilling waste produced in 2016 as well as reduce the previously accumulated drilling waste by 41%. Total accumulated

Waste management, thousand tonnes

INDICATOR	2014	2015	2016
Waste stored at the beginning of the year	11,289	10,349[41]	14,711[42]
including oily waste	5,988	5,975	10,363
including drilling cuttings	3,109	2,140	2,080
Adjustment for waste in the current period	295	4,694[43]	-26
including oily waste	120	4,226[43]	39
including drilling cuttings	187	391	-124
Waste produced during the year	3,253	5,393	5,455
including oily waste	755	591	587
including drilling cuttings	1,357	3,186	4,000
New waste inventories (third-party waste and waste taken over as a result of a reorganization of another legal entity)	945	1,578	2,126
including oily waste	164	271	75
including drilling cuttings	777	1,304	2,048
Waste used during the year	469[42]	995	711
including oily waste	152	100	115
including drilling cuttings	112	487	531
Waste treated and recycled	235[42]	266	135
including oily waste	128	236	126
including drilling cuttings	0	0	0
Waste buried	125	95	133
including oily waste	2	3	4
including drilling cuttings	67	28	94
Waste transferred to third parties	5,069	5,925	7,495
including oily waste	886	602	591
including drilling cuttings	3,437	4,164	6,226
Waste stored at the end of the year	9,883	14,734[44]	13,792
including oily waste	5,858	10,122	10,229
including drilling cuttings	1,813	2,342	1,153

41. The figure at the beginning of 2015 differs from the figure at the end of 2014 due to the extension of the environmental reporting perimeter The balances of waste stored at the beginning and end of 2014 and 2015 have been adjusted as a result of the legacy waste of the Ryazan refinery being included in the total balance of oily waste.
42. The figure at the beginning of 2016 differs from the figure at the end of 2015 due to the change of the environmental reporting perimeter.
43. The adjustment for waste stored in 2015 was due to the updated volume of third-party oily waste that was revised upward by around 4,174,000 tonnes following the 2015 physical count of waste stored at the evaporation ponds of RN-Stavropolneftegaz.
44. The amount of waste at the year-end was revised upward after the physical count of oily waste (see footnote 43 above), and the extension of the environmental reporting perimeter.

waste decreased by 6% as a result of the Company's efforts in 2016.

The implementation of comprehensive measures to enhance pipeline safety and improve oil spill response strategies, including containment and clean-up techniques, helped the Company to reach a significant (by 29%) reduction in newly contaminated lands in 2016.

In addition, the Company increased the remediation of contaminated lands by 18%. Although the on-site physical count at RN-Nyagannefteqaz resulted in the contaminated area adjusted by some 140 hectares, the Company took efforts that reduced the total area of oil-contaminated lands by 17%.

Crude oil and petroleum product spills, tonnes

INDICATOR	2014	2015	2016
Total crude oil and petroleum product spills	8,815	4,581	774

Land contamination and remediation, hectares

INDICATOR	2014	2015	2016
Contaminated lands at the beginning of the year	4,344	4,222[45]	4,036[46]
Contaminated lands as adjusted after a pre-project survey	65	212	325
Newly contaminated lands	378	413	291
Contaminated lands at the end of the year	4,171	4,132[47]	3,617
Land remediation during the year	13,789	13,603[47]	13,745
Including contaminated lands	603	708[48]	833
Natural recovery of disturbed and contaminated lands	12	76[48]	202

Total mud pits

INDICATOR	2014	2015	2016
At the beginning of the year	992	808[49]	755[50]
At the end of the year	764	719	571
Built during the year	311	327	290
Remedied during the year	539	416	474

45. The figure at the beginning of 2015 differs from the figure at the end of 2014 due to the extension of the environmental reporting perimeter.
46. The figure at the beginning of 2016 differs from the figure at the end of 2015 due to the change of the environmental reporting perimeter.
47. The 2015 figures have been updated.
48. The 2015 figure of legacy contaminated lands has been updated.
49. The figure at the beginning of 2015 differs from the figure at the end of 2014 due to the extension of the environmental reporting perimeter.
50. The figure at the beginning of 2016 differs from the figure at the end of 2015 due to the change of the environmental reporting perimeter.

Production of fuel meeting higher European emission standards

Rosneft is implementing a long-term effort to upgrade its refineries. The dedicated program provides for the construction or reconstruction of more than 30 secondary distillation units with a total capacity of 40 million tonnes a year. The goal of the program is to achieve an increased conversion ratio and a higher yield of light products, and to improve the quality of motor fuels produced.

In 2016, all of Rosneft's refineries produced Euro 5 gasoline and diesel fuels for the domestic market, fully meeting its commitment to transfer to the production of environmentally friendly fuels.

The production of fuel oil by Russian refineries fell by more than 17%, and the output of Euro 5 gasoline and diesel fuel grew 56% year on year. The yield of light products reached 56.6%, and the conversion ratio rose to 72% through improving the operating efficiency of distillation units and refineries.

The Company completed the construction of the following facilities:

- The fluid-catalytic cracking plant and the plant to produce methyl tert-butyl ether (MTBE), an octane booster additive, at the Kuibyshev refinery; with the new plants put on stream, the refinery will be able to meet the demand for high-octane gasoline blending components by producing them in-house and to increase the output of high-quality motor fuels
- The pressure swing adsorption unit at the Syzran refinery
- The ex-situ catalyst regeneration unit, built using a licensed technology of Porocel, which will make it possible to perform regeneration of imported hydrotreating catalysts for Euro 5 fuels at the Novokuibyshevsk catalyzes plant instead of transporting them abroad for regeneration.

Production of motor gasolines, thousand tonnes

INDICATOR	2014	2015	2016[51]
Class 3	2,600	—	—
Class 4	2,566	2,101	—
Class 5	5,243[52]	8,584	11,912
Total output of motor gasolines above Class 2	10,409	10,685	11,912

Output of diesel fuels, thousand tonnes

INDICATOR	2014	2015	2016[51]
Class 3	4,989	—	—
Class 4	4,341	6,051	—
Class 5	8,749[52]	11,386	19,167
Total output of diesel fuels above Class 2	18,079	17,437	19,167

51. The Euro 5 gasoline output is for Russian assets only, including Bashneft data for Q4 2016.
52. The Euro 5 gasoline output for 2014 has been adjusted.

ENERGY CONSUMPTION AND ENERGY EFFICIENCY

Lower operating costs resulting, in particular, from low fuel and energy consumption rates, along with higher production volumes are key for Rosneft to maintain its leading market positions. The Company implemented all measures on its Energy Saving Program for 2016, meeting its fuel and energy saving targets.

The 2016 savings amounted to 1,219,000[53] tce, or 20.9 million GJ, which was 19% above the target approved by the Board of Directors. In monetary terms, the Company saved around RUB 8.5 billion, 11% more than it planned, while its expenditures under the Energy Saving Program totaled RUB 1.3 billion.

By implementing its Energy Saving Program, Rosneft achieved the following fuel and energy savings in 2016:

- Oil and gas production: 753,000 tce, or 8.2 million GJ, 19% above the target[54]
- Oil and gas processing: 457,000 tce, or 12.5 million GJ, 23% above the target[55]
- Gas production and distribution: 200 tce, or 0.01 million GJ, 98% below the target[56, 57]
- Petroleum product distribution and sales: 7,000 tce, or 0.1 million GJ, 8% above the target[58]
- Drilling and oilfield services: 1,600 tce, or 0.03 million GJ, 4% above the target.[59]

The 2017-21 Energy Saving Program was drafted and approved by the Board of Directors in 2016 to achieve the following goals and objectives:

- Improve efficiency in using fuel and energy, while meeting hydrocarbon production, processing and sales targets
- Identify energy saving and higher energy efficiency potential Design economically justified energy saving measures that take into account the cost of energy resources, equipment and technologies, including cutting-edge innovations, as well as government initiatives to promote energy efficiency
- Implement the designed energy saving measures and those that may have the same spillover effect in the course of operations of oil production, oil and gas processing, petrochemicals, gas production and distribution, petroleum product distribution and sales, and OFS entities Achieve the fuel and energy saving targets
- Implement organizational measures to build an energy efficiency management system across the Company and update the Energy Saving Program on an annual basis to add extra measures and exclude economically ineffective ones.

Following its Energy Efficiency Policy and the corporate standard "Energy Management System: Procedures and Guidance", the Company implemented a number of initiatives in 2016 to raise energy efficiency awareness among its personnel, such as:

- Developed and conducted on an ongoing basis in-house workshops on energy efficiency and ways to improve it
- Drafted requirements for energy efficiency competencies that technical staff in the oil production, oil refining, petroleum product distribution and sales businesses should have, as well as a methodology to evaluate the competencies; this will be followed by a sweeping amendment of job descriptions in 2017, for personnel of Group entities and the corporate headquarters

53. This equals to 712,160 tce in accordance with GOST R 51750-2001 standard.
54. This equals to 280,830 tce (110.7% of the target) in accordance with GOST R 51750-2001 standard.
55. This equals to 426,650 tce (119% of the target) in accordance with GOST R 51750-2001 standard.
56. This equals to 210 tce in accordance with GOST R 51750-2001 standard.
57. The target was not met because the implementation of energy saving measures was postponed from 2016 to 2017-18 as a result of adjustments to the investment program of Regiongaz-Invest.
58. This equals to 3,380 tce (1% of the target) in accordance with GOST R 51750-2001 standard.
59. This equals to 1,100 tce (0.2% of the target) in accordance with GOST R 51750-2001 standard.

8.5

RUB BILLION
the Company saved in 2016 as result of Energy Saving Program implementation

- Put together and circulated among Group entities a corporate guidebook on best available technology, know-how and equipment to improve energy efficiency in oil and gas production, with a description of over 350 technological solutions; a similar guidebook is to be compiled for the oil and gas processing and petrochemicals businesses in 2017-18
- Drafted and communicated to Group entities technology guidelines to improve energy efficiency in the following processes: maintaining formation pressure, oil treatment and pumping, gas collection and transportation, electricity and heat supply and generation.

Rosneft's Committee on Energy Efficiency worked in accordance with its energy management procedures in 2016, to approve steps, both operational and methodological, toward achieving better energy efficiency and building a strong Energy Management System across Group entities and the entire Company. In particular, the Committee recommended that energy efficiency indicators be included in the 2017 KPIs of executives who lead the following departments at the corporate headquarters: oil production, oil refining, petrochemicals, and petroleum product distribution and sales.

In 2016, 27 entities of the Group were certified for compliance with ISO 50001:2012 Energy Management System Standard. Overall, 33 entities of the Company have completed this certification now.

The Company conducts regular energy efficiency checks in accordance with its internal regulations, seeing them as a tool to manage the efficiency of its energy systems. Follow-up checks were performed at 27 oil production and oil refining entities in 2016, with all of them receiving a satisfactory or higher rating on the internal scale. These checks will be conducted every two years according to the schedule drawn up by the Committee on Energy Efficiency, starting in 2017.

Rosneft continues to implement the centrally managed program for deployment of an energy efficiency control IT system spanning 13 oil production and 10 oil refining entities. The program work scope and costs were updated in 2016 in line with the newly adopted 2017-21 Energy Saving Program, with further implementation stages considered and approved by the Committee on Energy Efficiency.

The Company also continued work to enhance its internal energy efficiency regulations in 2016. It approved methodological guidelines on planning and measuring the actual energy saving effect of implementing energy saving programs at hydrocarbon processing and petrochemicals entities of the Group, and updated four existing internal regulations:

- regulation on enhancing operational efficiency of hydrocarbon processing and petrochemicals entities of the Group
- methodological guidelines on the electricity consumption structure for oil and gas production entities of the Group
- methodological guidelines on planning and measuring the actual energy saving effect of implementing energy saving programs at oil and gas production entities of the Group
- regulation on the procedure to conduct energy efficiency checks and inspections of the Energy Management System at Group entities.

The Company holds annual corporate forums on energy efficient oil production, whose aim is to create an organization-wide platform for raising energy efficiency. The 2017 forum hosted delegations from energy intensive equipment manufacturers and engineering companies, which presented advanced developments in energy efficiency solutions and equipment. The speakers included representatives of Gazprom Neft and Bashneft.

Energy consumption, million gigajoules

INDICATOR	2014	2015	2016[51]
Total consumption of renewable and non-renewable energy resources	302.9[60]	311.9[59]	338.2
Consumption of purchased electricity	109.5	113.7	123.1
Consumption of purchased heat	28.2	24.3	25.0
Total energy consumption	440.6	449.9	486.3

60. The 2014 and 2015 figures were adjusted due to using a refined reporting perimeter and accounting methodology for gas consumed for energy and technology needs in the oil refining and petrochemicals business.

HUMAN RESOURCES

IN 2016 ROSNEFT CONFIRMED ITS STATUS AS ONE OF RUSSIA'S LARGEST EMPLOYERS.

287.7

THSD EMPLOYEES – the Company's work force at year end

HR MANAGEMENT SYSTEM

In 2016 Rosneft confirmed its status as one of Russia's largest employers. At year end, the company's work force numbered 287,700 – 11% higher than in 2015. This increase is due largely to newly acquired assets, including Bashneft Oil Company, and an influx of employees from acquired service contractors.

Rosneft's dramatic growth and expansion make it a matter of paramount importance to optimize basic HR processes and unify the compensation and bonus systems. For this reason, efforts to unify and automate HR, compensation and social development processes were begun in 2014. In 2016 the Group made important progress in developing its HR system as part of the Group's people strategy.

Unification and automation of basic HR processes

Efforts were continued in 2016 to introduce template solutions as part of Rosneft's approved Plan for HR Control and Automation, Payroll Calculation and Social Development through 2020. As a result, the Unified Corporate HR, Compensation and Social Development Template was rolled out on a unified information platform at another five Group entities with a total of around 15,000 employees.

In September 2016 the template's key methodological component was approved as a basis for projects to unify and automate the main HR processes. The methodology includes 14 internal regulations as well as unified descriptions of processes, sets of instructions and procedures, and unified books of forms for the following main HR processes:

- HR records
- records of working time
- organizational management
- compensation system
- payroll calculation.

In 2016 a new roll-out project involving over 20,000 people was launched in 10 Group entities in Samara Region and southern Russia. Unified procedures and methodologies are expected to be used for HR records and payroll for 80,000 employees of Group entities by mid-2017.

Unification of functional units in Group entities

In 2016, in order to unify organizational structuring processes, model organizational/functional structures were developed and provided to Group entities for implementation in the following areas:

- public and media relations
- drilling, energy, economics and finance
- administration
- capital construction
- contract control and compliance with procedures.

Development of system-wide HR instruments

To optimize manageability, business processes and costs, work was continued on system-wide HR documents in 2016. Sixteen internal regulations were approved in the accounting period, of which 12 apply to all Group entities. More detailed information on system-wide HR instruments is provided in the Group's Annual Report for 2016.

Support for organizational change

Rosneft's dynamically growing business requires that HR meet high demands in supporting change. A number of initiatives were undertaken in 2016 to optimize business processes and cut costs, substantially boosting the efficiency of Rosneft business processes.

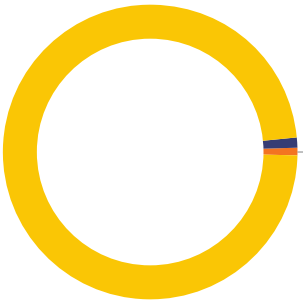
BUSINESS UNIT	INITIATIVES
Exploration and production	• reorganization of RN-Drilling, the group managed by RN-Service, and Vankorneft • formation of a qualified staff for major strategic projects: Yurubcheno-Tokhomskoye Field, Russkoye Field, Vankor Cluster • realization of Rosneft's strategy to replace outside with in-house supervision of drilling • development and implementation of new organizational structures for a number of major production enterprises
Trade and logistics	• implementation of a standard filling station structure • consolidation of the assets of RN-Regional Sales • modification of the organizational structure of 6 distribution and sales companies • evaluation of the competencies of HSE leads
Oil refining and petrochemicals	• modification of the organizational structures of the Personnel and Social Programs segment and the Mass Media and Public Relations segment • development and implementation of standard organizational/functional structures at a number of oil refineries • optimization of personnel expenses and the number of production staff
International projects	• implementation of organizational structures at newly established Group entities in Germany • employee training in the area of international trade • development of a new organizational structure and staffing plan for RN-Trans-West (Republic of Belarus)
Aviation business	• implementation of a unified compensation system • implementation of model calculations for transition to a new salary structure, by employee

Staff structure

Rosneft's staff structure in 2016 did not differ significantly from the year before. The majority of Rosneft employees (98%) were located in Russia, while the largest share outside Russia (1%) were employed at Group entities in Ukraine.

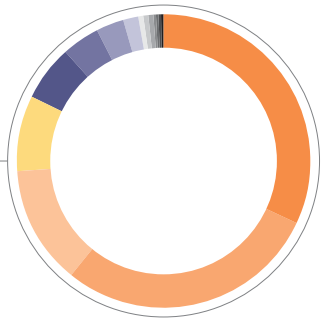
The average age of Rosneft employees also remained nearly the same at 39.9 years. Employees in management positions made up 12.5% (35,900 employees) of the total year-end headcount – practically the same as at the end of 2015. The percentage of women employees also remained at about the level of 2015: 33.5%. Women held 22.8% of Rosneft's management positions at the end of 2016 and represented 14% of top management.

STAFF BREAKDOWN BY COUNTRY, EMPLOYEES



Russia	248,815
Ukraine	2,483
Other countries	1,921.5

STAFF BREAKDOWN BY COUNTRY (EXCLUDING RUSSIA AND UKRAINE), EMPLOYEES



Republic of Belarus	616.5
Venezuela	557.8
Kyrgyzstan	249.9
Vietnam	158.8
Abkhazia	119
Armenia	77.5
Brazil	65.7
Switzerland	30.7
UK	11.9
Poland	9
Mongolia	8.9
Norway	8
USA	4
Canada	2
Kazakhstan	1.8

EMPLOYEE SURVEYS

As part of its efforts to develop internal communication, Rosneft conducted a sociological survey in December 2016 to measure employee satisfaction with HR and social programs. The survey covered 72 Group entities, including 16,000 respondents, 400 focus groups and in-depth interviews with company managers.

The findings showed a high degree of employee satisfaction with Rosneft's social policy and corporate initiatives and indicated that employees are well informed about business ethics. At the same time, a number of areas for improvement were identified, including the need for a corporate portal as a central junction for internal communications as well as the need to expand the practice of meetings between managers and labor collectives for purposes of feedback.

Based on these findings, a series of meetings will be held with representatives of Rosneft business lines to formulate plans of action.

HR PERFORMANCE IN 2016

Employee compensation

Social and benefit payments and one-time bonuses included in gross payroll averaged RUB 40,000 per employee in 2016. The average monthly salary for all Group entities covered by the business plan reached RUB 75,500 in 2016, and the great majority of these entities have traditionally paid higher salaries than other companies in their regions.

Effective 1 April 2016, salaries were indexed 7% for employees of Group entities in Russia in order to boost real salaries and compensate for inflation.

Unified compensation principles

- To enhance the system of incentives and motivate employees to perform, unified principles of compensation were developed and approved in 2016 for certain business lines in view of their specific activities in order to make the existing systems more transparent and effective, to base employee compensation more firmly on performance and to create additional incentives for high individual and collective results. Documents under development in 2016 included:

- model regulation on labor compensation for corporate research and design institutes
- salary and bonus guidelines for employees of Group entities in the Oil and Petrochemical segment
- draft regulation on salaries and bonuses for employees of Group entities in the Exploration and Production segment
- compensation system for filling station employees
- regulation on salaries and bonuses for employees of Group entities in the aviation business.

Internal rules and regulations

Another important system-wide decision was the approval of the Model Regulation on Internal Rules and Regulations of Group Entities. Trade unionists and the Rosneft Interregional Trade Union Organization were actively involved in drafting the document. The unified model will:

- allow labor to be organized more efficiently by systematizing and monitoring work schedules to ensure rational utilization of time
- eliminate the risk that internal rules and regulations of Group entities will violate the law
- improve labor productivity by including work schedules and labor discipline requirements in internal rules and regulations

In terms of structure and content, this document complies with the Russian Labor Code and optimally serves the interests of employers and employees.

40,000

RUB AVERAGED PER YEAR – social and benefit payments per employee

INTEGRATED RANKING

Since 2005, Group entities have taken part in an annual competition to determine the best companies in five lines of business:
- oil and gas production
- oil refining
- gas processing and petrochemicals
- distribution and sales
- research and development.

To improve the methodology and motivate the employees of Group entities to achieve strong collective results, Rosneft's rules for tallying the results were substantially revised in 2016.

Due to the growth in Rosneft's scale and volumes, the list of business lines has been expanded and elaborated: Transshipment via Marine Terminals has been added, and Oil and Gas Production has been divided into two sub-lines: "production of 6 million tonnes and more of oil equivalent" and "production of less than 6 million tonnes of oil equivalent." For each business line, specific performance indicators have been developed, including measures of production and sustainable development (such as occupational and environmental safety).

The amounts of the awards have been substantially increased to raise the status of this corporate ranking and motivate the employees of Group entities to compete:
- first-place ranking: 50% of the average monthly salary (previously 15%)
- second place: 30% of the average monthly salary (previously 5%)
- third place: 20% of the average monthly salary (previously no award).

KPI system

Rosneft has an effective system of key performance indicators (KPI) – an essential element in employee motivation and compensation. Beginning in 2016, pursuant to a Russian government directive, Rosneft and Group entities included measures of labor productivity in their lists of KPIs. KPIs for top managers also include sustainable development: fuel and energy savings, injury frequency rate and purchases from small and medium-sized businesses.

Social payments (social payment fund), benefit payments and one-time bonuses included in gross payroll in 2016, RUB million

TYPE OF EXPENDITURE	AMOUNT
Wellness programs for employees and members of their families	912.78
Employee termination	811.84
Retirement	928.66
Voluntary health insurance	1,988.50
Other social payments	1,882.54
Benefit payments and one-time bonuses included in gross payroll	4,110.72

75,467

RUB –
the average monthly salary
for all Group entities in 2016

Comparison of monthly salaries in select Rosneft Group entities and their regions of operation, RUB

KEY REGIONS OF OPERATION	SUBSIDIARY	AVERAGE SALARY PAID BY THE SUBSIDIARY IN 2016	AVERAGE SALARY IN THE REGION IN 2016	THE SUBSIDIARY'S AVERAGE SALARY AS A PERCENTAGE OF THE AVERAGE SALARY IN THE REGION IN 2016
Arkhangelsk Region	RN-Arkhangelsk Nefteprodukt LLC	37,833	37,531	101%
Irkutsk Region	Angarsk Petrochemical Company JSC	63,914	35,698	179%
	Angarsk Polymer Plant JSC	56,466	35,698	158%
	Irkutsknefteprodukt JSC	40,496	35,698	113%
	VCNG PJSC	100,210	35,698	281%
Krasnodar Territory	RN-Krasnodarneftegaz LLC	47,321	28,429	166%
	RN-Tuapse Refinery LLC	60,186	28,429	212%
	RN-Tuapsenefteprodukt LLC	44,986	28,429	158%
	Rosneft-Kurgannefteprodukt Oil Company PJSC	26,064	28,429	92%
Krasnoyarsk Territory	Vankorneft JSC	129,683	37,519	346%
	Vostsibneftegaz JSC	123,885	37,519	330%
	Achinsk Refinery VNK JSC	64,479	37,519	172%
	RN-Krasnoyarsknefteprodukt LLC	54,382	37,519	145%
Moscow Region	TZK Sheremetyevo CJSC	83,669	43,694	191%
Murmansk Region	Rosneft-Murmansknefteprodukt Oil Company PJSC	36,255	47,396	76%
Nenets Autonomous District	Bashneft-Polyus LLC	108,641	66,211	164%

KEY REGIONS OF OPERATION	SUBSIDIARY	AVERAGE SALARY PAID BY THE SUBSIDIARY IN 2016	AVERAGE SALARY IN THE REGION IN 2016	THE SUBSIDIARY'S AVERAGE SALARY AS A PERCENTAGE OF THE AVERAGE SALARY IN THE REGION IN 2016
Orenburg Region	Buguruslanneft LLC	40,146	25,393	158%
	PAO Orenburgneft	50,816	25,393	200%
Primorsky Territory	Eastern Petrochemical Company JSC	115,756	36,413	318%
	RN-Nakhodkanefteprodukt LLC	52,603	36,413	144%
Republic of Bashkortostan	Bashneft-Dobycha LLC	57,876	28,109	206%
	Ufaorgsintez PJSC	71,625	28,109	255%
	Branches of Bashneft Oil Company PJSC: Ufaneftekhim, Ufa Oil Refinery, Novoil	71,362	28,109	254%
	Branch of Bashneft Oil Company PJSC: Bashneft Regional Sales	77,232	28,109	275%
	Bashneft-Roznitsa LLC	35,362	28,109	126%
Republic of Ingushetia	RN-Ingushneft OJSC	25,368	21,356	119%
	RN-Ingushnefteprodukt LLC	26,008	21,356	122%
Republic of Karelia	Karelianefteprodukt JSC	29,664	32,112	92%
Komi Republic	RN-Severnaya Neft LLC	99,460	41,285	241%
Sakha (Yakutia) Republic	Taas-Yuryakh Neftegazodobycha LLC	131,163	56,120	234%
Republic of Khakassia	Khakasnefteprodukt Oil Company JSC	30,575	32,283	95%
Rostov Region	RN-Rostovnefteprodukt JSC	26,415	26,776	99%
Ryazan Region	Ryazan Oil Refinery JSC	68,704	27,174	253%
	Ryazannefteprodukt PJSC	31,154	27,174	115%
Samara Region	Samaraneftegaz JSC	54,936	28,412	193%
	Kuibyshev Oil Refinery JSC	55,344	28,412	195%
	Novokuibyshevsk Oil Refinery JSC	54,446	28,412	192%
	Syzran Oil Refinery	56,241	28,412	198%
	Novokuibyshevsk Petrochemical Company JSC	38,686	28,412	136%
	Novokuibyshevsk Oils and Additives Plant LLC	53,884	28,412	190%
	Samaranefteprodukt JSC	29,090	28,412	102%
St. Petersburg	RN-Trade LLC	47,224	48,591	97%
Saratov Region	Saratov Refinery PJSC	57,856	22,961	252%
	Saratovnefteprodukt PJSC	28,375	22,961	124%
Sakhalin Region	RN-Sakhalinmorneftegaz LLC	90,052	63,174	143%
Tomsk Region	Tomskneft VNK OJSC	90,996	34,290	265%
	Tomsknefteprodukt VNK JSC	39,212	34,290	114%
Tyumen Region	Tyumenneftegaz JSC	194,326	36,736	529%
	RN-Uvatneftegaz LLC	119,032	36,736	324%
Udmurt Republic	Udmurtneft OJSC	58,173	27,046	215%
Khabarovsk Territory	RN-Komsomolsk Refinery LLC	72,430	42,476	171%
Khanty-Mansi Autonomous District	RN-Yuganskneftegaz LLC	88,141	55,641	158%

KEY REGIONS OF OPERATION	SUBSIDIARY	AVERAGE SALARY PAID BY THE SUBSIDIARY IN 2016	AVERAGE SALARY IN THE REGION IN 2016	THE SUBSIDIARY'S AVERAGE SALARY AS A PERCENTAGE OF THE AVERAGE SALARY IN THE REGION IN 2016
	Varyeganneftegaz PJSC	122,523	55,641	220%
	RN-Nyagannefteqaz JSC	94,881	55,641	171%
	Samotlorneftegaz JSC	91,182	55,641	164%
	Krasnoleninsky Refinery LLC	86,644	55,641	156%
	Nizhnevartovsk Refinery LLC	92,902	55,641	167%
	Zapsibnefteprodukt LLC	63,209	55,641	114%
Chechen Republic	Groznefteqaz OJSC	30,116	22,646	133%
	RN-Chechennefteprodukt LLC	15,773	22,646	70%
Yamalo-Nenets Autonomous District	RN-Purneftegaz LLC	100,488	74,205	135%
Yaroslavl Region	RN-Yaroslavl JSC	27,285	28,950	94%

Employee training and development

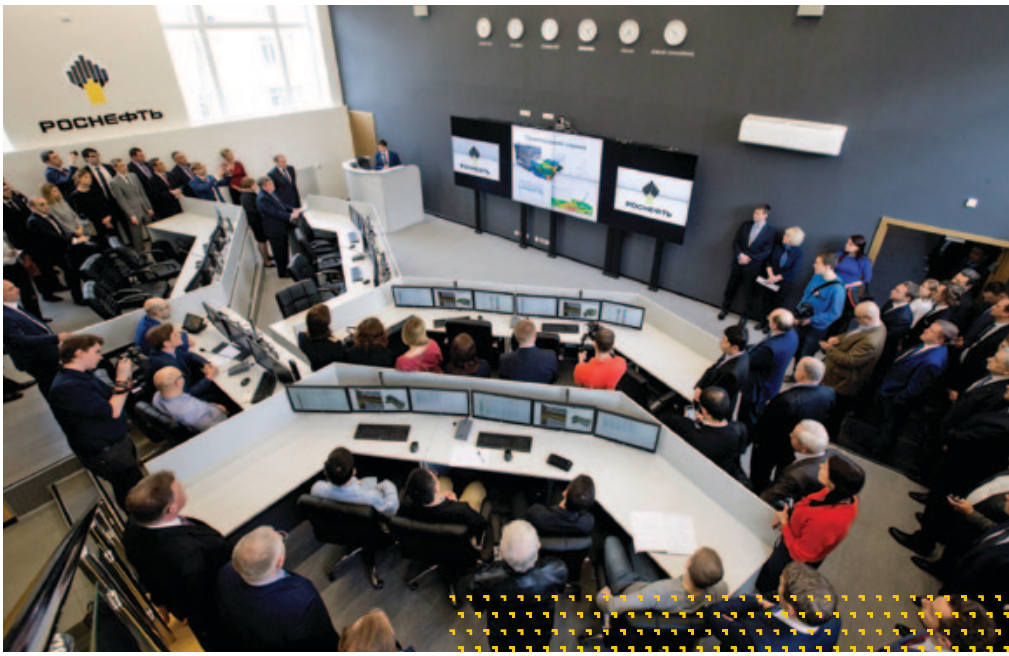
In 2016 Rosneft continued to develop its unified corporate system of employee training and development to satisfy the business's current and strategic needs. Rosneft's corporate training system meets the requirements of state agencies and corporate policies and procedures and relies on best Russian and foreign practice. 438,500 man-courses were provided in 2016, including mandatory, occupational and management training.

In-house training resources

In order to preserve and transmit knowledge within Rosneft as well as to ensure training quality and effectiveness, Rosneft has developed its own in-house training resources:

- corporate training centers
- in-house instructors and trainers
- a distance learning system.

Over 60% of all training of Rosneft employees in 2016 was done in-house.



Rosneft's corporate training system meets the requirements of state agencies and corporate policies and procedures and relies on best Russian and foreign practice.

438,507

MAN-COURSES
were provided in 2016

Sixty training centers, including practical training areas, have been set up and successfully operated at Group entities, drawing on the resources of educational institutions in the regions of operation, to provide workers and professionals with advanced, occupational and mandatory training. Milestones in the development of corporate training centers in 2016:

- Sapfir Applied Engineering and Training Center was licensed to conduct training
- standard design specifications were developed for training areas for 13 major refineries
- a program to equip refineries with 167 training simulators in 2014-21 was initiated, and 12 simulators were acquired in 2016
- work was initiated to set up/construct/equip training centers with training areas at Saratov, Tuapse, Syzran and Komsomolsk Refineries, Novokuibyshevsk Petrochemical Company and Zvezda Shipbuilding Complex (by 2021)

In parallel, Rosneft developed its in-house training system by recruiting in-house instructors, experts and mentors. Rosneft's in-house instructors trained over 100,000 employees in 2016. 396 in-house training courses were developed at the corporate level for 6,955 employees. In 2016 Rosneft also developed a catalog of in-house training courses and seminars covering the following areas:

- production (drilling, geology and exploration, oil refining, petrochemicals, etc.)
- functional (HR, record management, accounting, commerce and logistics, etc.)
- sustainable development (occupational health and safety, environmental protection, countering corruption and fraud)

Distance learning in 2016 included over 25,000 man-courses.

SUSTAINABLE DEVELOPMENT TRAINING: OCCUPATIONAL HEALTH AND SAFETY, COUNTERACTING CORRUPTION

In 2016 Rosneft gave high priority to sustainable development training: 70% of all training in 2016 was mandatory training in industrial, environmental, fire and occupational safety as well as authorization to perform hazardous kinds of work.

In 2016, as part of the program to promote a culture of job safety and informed leadership in occupational safety, Rosneft created and trained a team of 1,200 in-house HSE instructors to teach courses on "Leadership," "Risk Assessment and Management" and "Incident Investigation," with the ultimate goal of passing this knowledge on to managers in Group entities. A total of 208 general directors of Group entities were trained in 2016.

Rosneft conducted on-going anti-corruption and anti-fraud training in 2016: 997 employees took the on-site course "A Systemic Approach to the Compliance Function" in 2015-16, and 6% of employees, including 28 Rosneft top managers, took the distance learning course "Countering Corruption and Fraud" in 2016.

Training and preparation of Rosneft staff in 2016, man-courses

DESCRIPTION	2014	2015	2016
Total for the year	261,247	325,890	438,507
By category			
Managers	46,403	74,443	83,981
Talent pool	2,009	2,259	2,625
Professionals	69,549	81,855	103,094
Young professionals	5,268	6,556	3,706
Workers	138,018	160,777	245,101

Employee training for strategic projects

Targeted corporate training is provided to ensure qualified personnel for strategic Rosneft projects. Prominent among corporate training programs offered in 2016 were comprehensive programs designed to meet the needs of specific business segments.

Exploration and production

Innovative advanced training programs were developed and implemented in 2016 to prepare managers and professionals for offshore projects:

- 36 professionals were trained in 2015-16, using the resources of Gubkin Russian State University of Oil and Gas, for work on offshore oil and gas fields;
- plans for 2017-2018 include drawing the resources of Lomonosov Moscow State University to train 72 professionals in offshore oil and gas geology and geophysics, offshore project management and engineering surveys for the construction of oil and gas field facilities.

In 2016 Rosneft workers also received targeted training in international standards of well control and management involving gas, oil and water flows; as of the end of the reporting period, over 2,500 employees had been trained.

Refining, commerce and logistics

As part of a refinery modernization program, as well as to prevent accidents and work-related injuries and enhance the efficiency of refineries, Rosneft conducts comprehensive long-term programs of simulator-based training for refinery operating staff and targeted training to prepare refinery workers. The programs included a total of over 116,000 man-courses in 2016.

In order to draw on best international practices, Rosneft employees did internships at refineries in Germany and Finland, and experts from international companies were brought in to conduct training. Fifty-two professionals took part in internships and training in 2016.

Six professionals were trained in "Oil Refining and Petrochemicals" in 2016 as part of an occupational retraining program offered in collaboration with Gubkin Russian State University of Oil and Gas.

In 2016, in accordance with the strategy for retail business development, Rosneft offered training in corporate standards of service at filling stations, marketing and sales of complementary goods. A total of 44,000 employees received advanced training in 2016.

Training of foreign nationals

As part of its international projects, Rosneft seeks to involve foreign partners in training personnel for work on joint projects and business projects in the fuel and energy sector.

In 2016 Rosneft continued joint education projects with Cubapetroleo (Cuba), Petróleos de Venezuela S.A. (PDVSA) (Venezuela) and the Mongolian Ministry of Education and Science. Twenty-five Cubans, 15 Venezuelans and 17 Mongolians received the opportunity to pursue bachelor's, specialist and master's degrees at Rosneft partner universities.

In 2016 Rosneft signed educational cooperation agreements with Petrovietnam Oil and Gas Corporation of Vietnam and ONGC Videsh Ltd. (India).

Rosneft continued to work with Pertamina Oil and Gas Company (Indonesia) under a 2015 Memorandum of Understanding on the training of Pertamina employees at Rosneft's partner universities.

Internships at Syzran Oil Refinery and RN-Uvatneftegaz were arranged for employees of KazMunayGas Oil Company (Kazakhstan).

Rosneft prepared tripartite agreements on cooperation with the Polytechnic University of Turin (Italy) and Rosneft's partner universities (Moscow State Institute of Foreign Relations and Gubkin Russian State University of Oil and Gas).

Competency-based evaluation and career development

In 2016 Rosneft continued to implement a target innovation project to introduce competency-based career development across all business segments. The goal of the project is to create competency profiles for Rosneft employees across all key business segments as well as tools for evaluating them. The project is innovative in taking a comprehensive approach to evaluation and career development throughout an employee's career – from new hire to experienced manager. This is a major project, covering such business processes as offshore operations, oil and gas production, oil refining, distribution and sales, logistics and transport, capital construction project management, supply, energy efficiency, economics and finance, etc.

THE WORLDSKILLS COMPETITION

Pursuant to an instruction of Russian President Vladimir Putin, Rosneft is involved for the second year in a row in the international WorldSkills movement to popularize skilled professions.

In 2016 a Rosneft team of professionals was prepared using WorldSkills methodology and sent to the Third National Championship of End-to-End High-Tech Industrial Professions. Seven competitors and 13 experts from Rosneft oil refineries and petrochemical plants competed in two categories: Laboratory Chemical Testing and Electrical Installations. The Rosneft team placed second in the Laboratory Chemical Testing category.

Employees representing 14 Rosneft oil refineries took part in the first corporate championship at Novokuibyshevsk Oil Refinery in 2016.

The Rosneft Standard of Competency-Based Evaluation and Career Development Standard was developed and approved in 2016 to establish unified requirements for the evaluation of employees across all competencies for purposes of:

- planning training (competency development)
- forming a talent pool and expert communities
- hiring and promotion

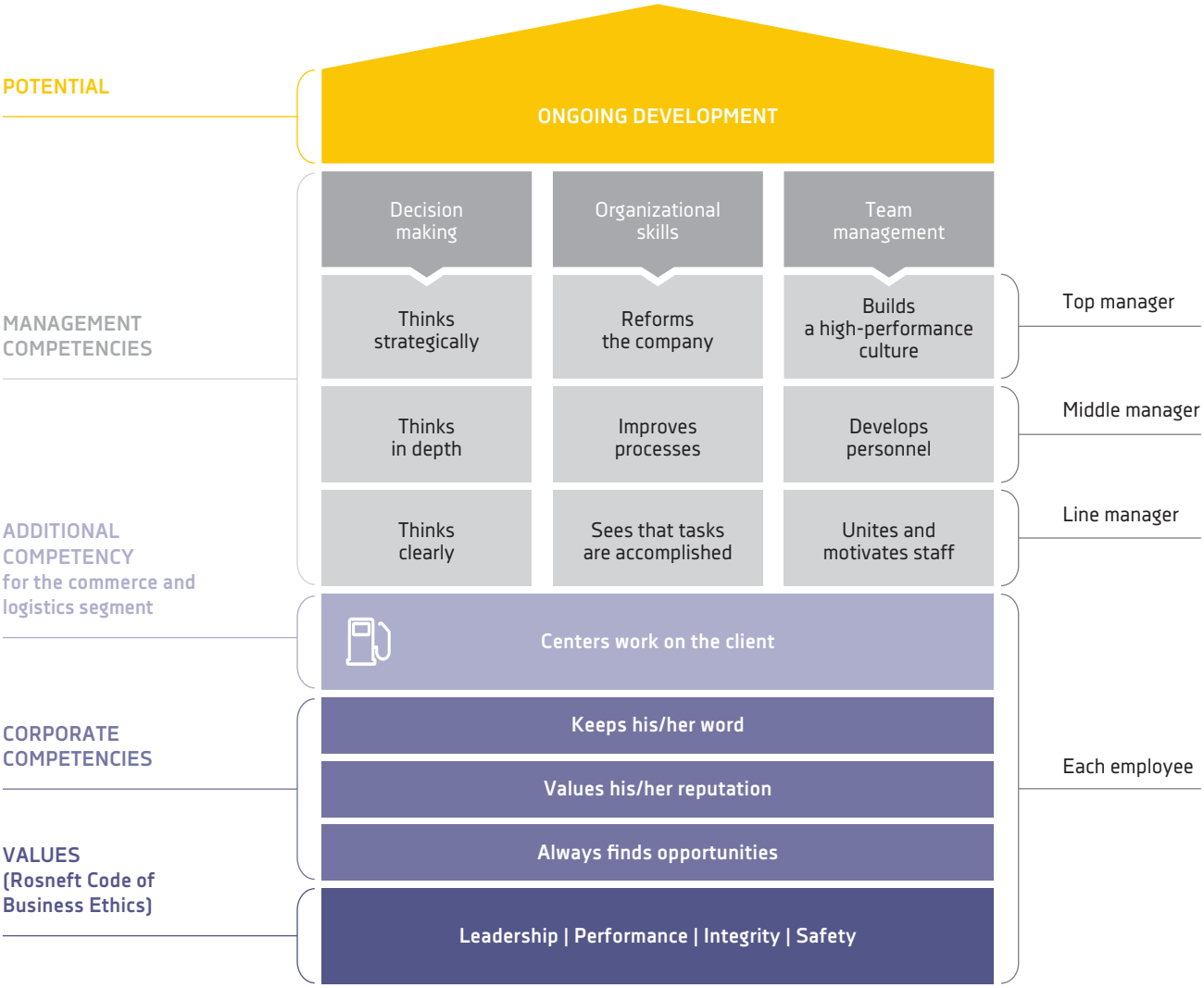
The standard establishes procedures, criteria and tools for evaluation and career development for all categories of personnel at Rosneft and Group entities in these areas.

Corporate, management and professional competencies are evaluated.

Evaluation criteria are set by the Model of Management and Corporate Competencies, updated in 2016. This model was used in 2016 to evaluate over 12,000 people, and 176 specialists were certified in Group entities for that purpose.

Competency criteria are established in employee competency profiles and in corporate professional standards for skilled professions. The competencies of over 9,000 employees were evaluated in 2016.

44 THSD
employees received advanced training in 2016



Specialized information system for competency-based employee evaluation and development

Efforts were continued in 2016 to create a centralized information system so that evaluation results can be compiled and integrated with the general HR database and Rosneft training resources. This specialized information system for competency-based employee evaluation and development will permit a number of processes to be automated and make employee evaluation faster and more efficient.

The system will allow an evaluation of the competencies of all Rosneft employees, regardless of position. For example, professional competencies are to be evaluated by means of specialized online testing. Based on their evaluation, employees are automatically offered a range of training courses in line with their individual competency-development plans. The information system allows an employee or his/her supervisor to request a specific course, subject to approval by those responsible for training, and to take all required courses in a timely manner.

In 2016 the system was technically configured and comprehensively tested. The next stage will be a trial run.

9.2

THSD
employees passed the evaluation of vocational competencies

Comprehensive performance evaluation system

DESCRIPTION	2014	2015	2016
Number of profiles developed (cumulative total)	1,100	1,712	1,816
Evaluation of vocational competencies, persons	812	6,493	9,200
Evaluation of corporate and management competencies, thousand persons	13.1	11.3	12.09

State professional standards

In connection with the entry into force of amendments to the Russian Labor Code (Federal Law No. FZ-122 of 2 May 2015) and in fulfillment of Directive No. 5119p-P13 of the Russian Government of 14 July 2016 "On the Implementation of Professional Standards at Rosneft Oil Company," the Company began work to implement state professional standards (hereinafter, "professional standards") in 2016.

Rosneft has introduced unified approaches to the application of professional standards. In 2016, as planned, Rosneft and Group entities:

- formed a committee for the implementation (application) of professional standards
- determined mandatory professional standards that apply to job titles under Article 57 of the Russian Labor Code and to qualification requirements under part 1 of Article 195.3 of the Russian Labor Code
- amended job descriptions and regulations on business units in accordance with the qualifications required by mandatory professional standards
- performed a comparative analysis of employee qualifications to determine whether they meet the requirements of mandatory professional standards
- prepared training plans for 2017-2019 to rectify the shortcomings identified

Since 2015, Rosneft has been represented on the Council for Professional Qualifications in the Oil and Gas Sector, coordinated by the National Council for Professional Qualifications under the President of the Russian Federation. Rosneft continued its work on the council in 2016, including the development and expert examination of professional standards projects.

BEST IN THE PROFESSION COMPETITION

The Best in the Profession Competition is a component of the motivation system that helps to identify and encourage employees that show promise and initiative and to promote the development of professional skills. The competition helps in disseminating best practices, implementing new technologies, enhancing the prestige of skilled professions, and promoting production culture and responsibility for safe operations.

The twelfth such competition, held in 2016 at Rosneft production facilities in Krasnodar Territory, had 700 participants from 89 Group entities.

Both theoretical and practical skills were taken into account. As is traditional, high priority was given to industrial, fire, environmental and occupational safety. Over three days, the participants competed in 24 skill categories in the areas of oil and gas production, oil refining and distribution and sales. Victors and prize-winners were awarded with diplomas and money certificates.

WORK WITH YOUNG PROFESSIONALS

Active work with young professionals is one of the top priorities of Rosneft's people policy. Rosneft strives to ensure an ample supply of talent by training the best university graduates to become highly qualified young professionals and by facilitating their orientation at individual companies.

In 2016, 106 Group entities employed 4,027 young professionals, 1,273 of whom were hired in 2016. Councils of young professionals and a mentoring program help recent graduates adapt more readily at Group entities. Training and career growth follow young professionals' individual development plans. 3,706 man-courses were provided in 2016 as part of programs to develop the professional and management competencies of young professionals and their mentors.

Rosneft held its traditional business games in 2016 to identify young professionals with leadership potential in order to form a strategic reserve of young talent. 287 young professionals from 58 Group entities took part in 2016. Based on the results, 74 young professionals from 41 Group entities were chosen for their high level of corporate and management competencies and recommended for further training and possible inclusion in the talent pool for Group entities.

Ultimately, seventy-five young professionals received training in 2015 in the program "Corporate University of Young Leaders." As a result of the business games and training, it was recommended that 65 of these be included in the talent pool for Group entities.

Young professionals at Rosneft

DESCRIPTION	2014	2015	2016
Number of young professionals hired after they completed their higher education	1,197	1,398	1273
Number of young professionals in the Company	3,324	3,667	4,027
Number of young professionals who participated in science and technology conferences	1,862	1,632	1,853
Expenditures on corporate programs targeting young professionals, RUB million	88.2	84.3	94.5

4,027

YOUNG PROFESSIONALS
were employed by the Company in 2016

3,706

MAN-COURSES
were provided in 2016 as part of programs to develop the professional and management competencies of young professionals and their mentors

At Eleventh Interregional Workshop in Moscow.

Science and technology conferences

Rosneft's annual science and technology conferences are among the most effective ways of working with the company's young professionals and assessing their potential. Conferences are held in three stages: regional, cluster and interregional. 1,853 young professionals took part in 2016, and 76 of these emerged as winners at the concluding Eleventh Interregional Workshop.

The Workshop held at one of Rosneft's key partner schools, Gubkin Russian State University of Oil and Gas in Moscow. 278 young specialists from 65 Group entities – the winners of preliminary stages at regional and cluster conferences – took part.

Fifty-eight of the projects entered in the Interregional Workshop were recommended for implementation at Rosneft. Forty-eight projects recommended on the basis of the 2015 workshop were implemented in 2016 at 32 Group entities, yielding an additional 175,000 tonnes of oil and an economic effect of RUB 235 million.

Comprehensive program of career planning and training for young engineers in the Exploration and Production segment

Work was continued in 2016 on a comprehensive program of career planning and training for young engineers in the Exploration and Production segment. The program covers six business lines: Geology, Drilling, Well Intervention, Development, Production and Offshore Projects. A task force worked to develop programs to train young engineers for positions specifically approved for the comprehensive program.

The following initiatives were successfully implemented in 2016:

- 20 young employees from six Group entities involved in the production of oil and gas began a new program to train young drilling engineers: Rosneft Drilling Supervision and Engineering
- 30 young employees from 21 Group entities took part in the Oilfield Chemistry Program developed and launched in March 2017 to train young engineers in oilfield chemistry and materials science
- the programs Sedimentology and Sequence Stratigraphy, Offshore Drilling Supervisor and Offshore Drilling Specialist were developed.

235

RUB MILLION –
an economic effect from projects of young specialists implemented at 32 Group entities on the basis of the 2015 workshop

Talent pool program

Rosneft is committed to developing the corporate and management competencies of its talent pool. The talent pool program identifies talented employees so that the Company can make maximum use of their potential and retain the best people by giving them opportunities for development and career growth.

As part of talent pool efforts in 2016, personnel committees chaired by Rosneft top managers met and updated the talent pool for designated first-tier management positions.

In 2016, system-wide talent pool efforts at Rosneft included the following initiatives:

- the "talent pool system" process in corporate information systems was automated, and the function "maintenance of talent pool data" was developed
- a multi-tier competency evaluation system was developed to aid in selecting pool members and determining their development priorities and individual development plans 5,900 employees have been evaluated since the start of 2016
- talent pool members were trained in three corporate MBA programs at the International Institute of Economics and Law of Moscow State Institute of International Relations, St. Petersburg State University's Graduate School of Management and Gubkin Russian State University of Oil and Gas and took courses to develop their management competencies.

A total of over 2,600 pool members were trained in 2016.

Work with youth in local communities

In 2016 Rosneft continued to operate its corporate School–University–Company continuing education system for the purposes of:

- creating an external talent pool and ensuring a steady influx of highly educated young people with solid professional training
- supporting the university education of successful Rosneft Class graduates and potentially bringing them into Rosneft as new hires.

TRAINING AND ORIENTATION OF YOUNG PROFESSIONALS AT SHIPBUILDING AND SHIP REPAIR ENTERPRISES

Rosneft is committed to the training and orientation of young professionals at shipbuilding and ship repair enterprises, including Far Eastern Shipbuilding and Ship Repair Center, Zvezda Far Eastern Shipyard, Dalzavod Ship Repair Center, Shipyard 179, Vostokproekverf Far Eastern Design Institute and Northeast Repair Center.

As of the end of 2016, shipbuilding and ship repair enterprises employed a total of 143 young professionals, each of whom had an experienced mentor and received orientation and development support.

One of the most important measures is the effort to involve young professionals in innovation, research and design. In 2016 the first science and technology conference was held for young professionals at enterprises in the shipbuilding and ship repair segment. The conference considered 18 projects of young professionals at five enterprises of the Far Eastern Shipbuilding and Ship Repair Center and students of Far Eastern Federal University, Admiral Nevelsky Marine State University and St. Petersburg State Marine Technical University. The victors and prizewinners received certificates and cash awards

To promote the corporate School–University–Company continuing education system in local communities and to support participating educational institutions, Rosneft and Group entities provide charitable assistance to schools, technical schools, colleges and universities. This assistance goes toward:

- establishing and supporting Rosneft Classes, including costs for further education, upgrading the qualifications of instructors, acquiring equipment for dedicated rooms and career guidance. These expenditures totaled RUB 175.7 million in 2016
- development of partnership relations with vocational and higher educational institutions, including the updating of education programs, the maintenance of core departments and specialized master's programs at partner universities, the development of infrastructure and the academic base of educational institutions, scholarships for gifted students and grants for teaching staff. These expenditures totaled RUB 784.2 million in 2016.

Rosneft Classes

Rosneft contributes to the system of pre-university education and career guidance by offering specialized Rosneft Classes in Russia's regions. These classes, offered with the support of Group entities, help school students obtain a good general education so that they can go on to study engineering at the university level and ultimately be hired by Rosneft after graduation.

In 2016, a total of 2,499 students took 105 Rosneft Classes in 57 general education schools in 50 cities and settlements in 25 regions of the Russian Federation.

1,098 students graduated from Rosneft Classes in 2016, and 1,053 of these subsequently enrolled in universities. The project's effectiveness can be gauged by the frequency with which Rosneft companies hire graduates of Rosneft Classes who receive specialized higher education. Eighty-five young graduates of Rosneft Classes were hired by Group entities in 2016.

The high quality of Rosneft Classes is the result of an in-depth study of physics and mathematics, additional instruction in career-related subjects by instructors from partner universities, and annual skill-upgrading workshops for school directors and instructors of Rosneft Classes. In 2016 all Rosneft Classes had agreements with partner universities whose instructors were invited to lecture. In 2016, team-building training was offered in 9 Russian federal districts.

1,098 students graduated from Rosneft Classes in 2016, and 1,053 of these subsequently enrolled in universities.

CAREER-GUIDANCE FIELD TRIP TO NEFTEYUGANSK FOR STUDENTS OF THE TENTH MOSCOW ROSNEFT CLASS

In September 2016 Rosneft's HR department, in cooperation with the HR service of RN-Yuganskneftegaz, sponsored a career-guidance seminar in Nefteyugansk for students of the Moscow Rosneft Class. The three-day program was ambitious. The students visited production sites for a first-hand demonstration of how oil is produced and the technologies employed in today's oil and gas industry.

Tenth graders were given team-building and career guidance training as well as an Oil School training session at the Professional Qualification Center of Rosneft's Nefteyugansk Corporate Institute. The students also visited the Oil Museum and the Neftyugansk Ethnographic Center, where they had an opportunity to learn about the culture of the indigenous peoples of the North.

Rosneft Classes project

DESCRIPTION	2014	2015	2016
Number of Rosneft Classes	87	98	105
Number of students	2,050	2,359	2,499
Number of regions	20	23	25
Investments in Rosneft Classes, RUB million	126.1	147.6	185.2

2,499

STUDENTS
took 105 Rosneft Classes in 2016

Partnership with universities

Partnership relations with leading Russian universities are being actively developed as part of the School–University–Company continuing education program. In 2016 the number of universities with which Rosneft and Group entities have signed long-term package agreements grew to 54, of which 18 are partners of Rosneft. In 2016 Rosneft signed new partnership agreements with seven universities: Bashkir State University, Vladivostok State University of Economics and Service, Kazan National Research Technological University, Nizhny Novgorod State Technical University, Omsk State Technical University, St. Petersburg State Technological Institute (Technical University) and Siberian State University of Water Transport. These agreements promote cooperation in the areas of education, science and technology, innovation and infrastructure.

The following initiatives were pursued in 2016 under partnership agreements with universities:

- 48 employees were involved in the continuing work of 17 core academic departments at Rosneft
- a number of university infrastructure projects were implemented for improved training of professionals to meet Rosneft's needs at St. Petersburg National Research Academic University (Russian Academy of Sciences) and for a laboratory to study the properties of sea ice at Far Eastern Federal University; in 2016 a laboratory was set up at Admiral Nevelsky Marine State University to plan the maintenance and repair of marine facilities, and another laboratory was established at Murmansk State Technical University for the 3D modeling of oil and gas processes to train specialists for work in the Arctic; efforts continued to set up a drilling simulation laboratory at Tyumen Industrial University
- education programs that prepare specialists and further professional education programs for Rosneft employees were updated
- 115 university staff members and 463 students received support in the form of corporate grants and scholarships
- some 20,000 students took part in the Rosneft Days career guidance event
- training and internships at Rosneft companies were offered to 6,645 students In 2016 a long-term internship (up to two years) at Rosneft headquarters was set up for 92 master's students of Rosneft partner universities.

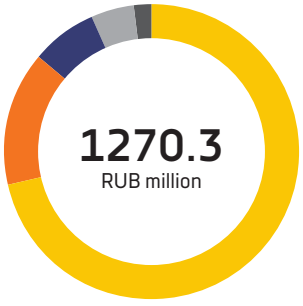
In 2016, as part of Rosneft's partnership with universities, work was completed to establish an Offshore Drilling Science and Education Center, drawing on the resources of Gubkin Russian State University of Oil and Gas. This is a modern technology and training center that prepares people with competitive expertise in drilling of oil and gas wells on offshore oil and gas fields, including on the Arctic shelf, using domestic well-construction technologies. The center is equipped with modern classrooms, laboratories and simulators. The Marine Drilling Center will train 250-300 students annually, and some 200 Rosneft employees will be able to take further professional training.

An important area of Rosneft's cooperation with universities is support for state education policy. In 2016 this involved Rosneft representation on the boards of regents of nine partner universities as well as the supervisory boards of the National Intellectual Development Foundation and the Russian Academy of Education. Support was provided to establish a preparatory school for gifted children under the auspices of Lomonosov Moscow State University; in order to prepare highly qualified engineers for the shipbuilding industry, support was also provided to develop the science infrastructure of maritime universities, including St. Petersburg State Marine Technical University, Admiral Makarov State University of Maritime and Inland Shipping and Admiral Nevelsky Marine State University.

Education support for employees and members of their families

Rosneft's social policy includes financial support for the education of employees and their children. The program of interest-free education loans was continued in 2016, and 204 education loans were granted, totaling RUB 14.2 million Loans were granted to employees or their children over 16 years of age who are full-time students at higher or specialized secondary educational institutions.

FINANCING OF CONTINUING EDUCATION INCENTIVES IN 2016, RUB MILLION



Partnership with universities (development of university infrastructure, work placements and internships, stipends, grants for instructors)	908.8
Training at the school level	185.2
Work with young professionals	94.5
Skill upgrading programs at universities	58.9
Conferences	22.9

1,270.3

RUB MILLION – financing of continuing education system in 2016

Partnerships with universities

DESCRIPTION	2014	2015	2016
Number of partner universities	34	47	54
Number of students who received work placements	4,833	4,839	6,645
Expenditures on partnerships with universities, RUB million	492.3	769.4	908.8

Creation of optimal working conditions

In 2016 Rosneft made wide-ranging efforts to create suitable working conditions at Rosneft production and support facilities. A key element of this is the development and enhancement of 95 rotation villages and trailer parks that in 2016 housed some 22,000 employees of Rosneft and its contractors.

In 2016, a number of internal regulations were approved and implemented, setting unified high standards for the design, construction and use of Rosneft rotation villages, including:

- standard engineering solutions for Rosneft rotation villages, field support bases, areas and shops[61]
- guidelines with unified specifications for the design, purchase, installation and repair of modular administrative and support buildings on Rosneft fields[62]
- guidelines with unified specifications for the design, purchase, installation and repair of heating units for Rosneft rotation workers.[63]

Important achievements in 2016 included continuing efforts to promote a culture of job safety and informed leadership in the area of health and safety. As part of this program, guidelines were developed for food service, potable water, water supply and accommodations in Rosneft rotation villages[64]. In accordance with these guidelines, Rosneft performs regular inspections of food services, living conditions and other services in rotation villages.

In 2016 Rosneft continued its efforts to fulfill the Plan for the Modernization of Work-Related Social Facilities, including the construction, reconstruction and capital repairs of dormitories, canteens, administration buildings, brigade points, stores, bakeries, sports and fitness centers, residential complexes, and bathing and laundry facilities. The measures planned for 2016 were carried out in full.

Expenditures for the development of rotation villages, field support bases, areas and shops came to RUB 11.3 billion.

RN-Yuganskneftegaz rotation village.

61. Standard engineering documentation: “Standard Engineering Solutions for Rotation Villages: Modular (Frame and Panel) Residential Complexes (Album)” and “Standard Engineering Solutions for Field Support Bases, Areas and Shops (Album)”.
62. Guidelines: “Unified Specifications for Modular Administrative and Support Buildings” and “Standard Specifications for Modular Trailers with Varying Functions”.
63. Guidelines: “Standard Specifications for Heating Units for Rotation Workers”.
64. Guidelines: “The Organization of Food Service for Rotation Workers in the Group’s Gas Production Companies and Workers in the Group’s Oil and Gas Processing Companies”.

Quality living conditions

For many years Rosneft has had a comprehensive housing program, including corporate mortgages, housing construction and company housing. 1,130 Rosneft employees improved their living conditions under the program in 2016.

The program involved ongoing partnerships with the Russian Regional Development Bank and Far Eastern Bank. The rates for general mortgages and mortgages for young employees were lowered to 11.5% and 11%, respectively, in 2016. 787 such loans were provided in 2016 for a total of RUB 605.5 million.

Rosneft offers temporary housing to highly qualified employees from other cities. In 2016 such company apartments were provided to 341 families of employees.

If no company apartments are available in a region, Rosneft compensates employees transferred to that region for the cost of rented housing. The Rosneft Regulation on Compensation of the Cost of Rented Housing for Employees of Group Entities Who Are Transferred from Another Region took effect in 2016. This regulation eliminates the time-consuming administration of housing rental, reduces tax exposure and minimizes inefficient expenditures by Group entities.

To attract highly qualified employees, Rosneft builds apartment blocks for its employees in a number of local communities. In 2016, construction continued in Komsomolsk-on-Amur and the village of Agoy in Tuapse District, Krasnodar Territory.

788 Rosneft employees improved their living conditions under the housing program in 2016.

Promotion of employee health

In 2016 Rosneft continued its successful employee health program to ensure timely and high-quality medical services, wellness initiatives, treatment at sanatoriums and resorts, disease prevention and a healthy lifestyle.

Rosneft spent RUB 3.3 billion to promote its employees' health in 2016.

Development of the employee health system

In 2016 the Industrial Medicine Advisory Board, including physicians and specialists in industrial medicine at Group entities, continued to organize and coordinate efforts to develop industrial medicine and promote employee health. The board's achievements included inspections of the health care system and the organization of emergency medical aid. A total of 159 medical stations were inspected at 39 Group entities. Based on the results, advisory board members developed standardized reports and corrective measures.

Rosneft is committed to providing guidance and support for health professionals at regional production facilities. As part of a joint project with Lomonosov Moscow State University to train medical staff, Rosneft held 10 distance training courses for over 400 medical professionals at Group medical stations in accordance with modern standards of emergency medical aid and occupational pathology.

11.3

RUB BILLION –
expenditures for the development of rotation villages in 2016

788

ROSNEFT EMPLOYEES
improved their living conditions under the program in 2016

As part of a joint project with Lomonosov Moscow State University, a program for the comprehensive analysis and monitoring of employee health was developed and launched in 2016. A preliminary assessment was done of the 38 largest Group entities, with an average annual headcount of 98,914 employees. For each entity, 6 groups of indicators were analyzed:

- illness and injury
- medical aid
- organization of medical stations
- results of medical examination
- personal insurance
- sanatorium and resort therapy.

Experts at Lomonosov Moscow State University and Rosneft analyzed this information and formulated recommendations for improving the employee health system.

Emergency medical aid

In 2016 Rosneft gave high priority to the development of emergency medical assistance at production sites and to the evacuation of the sick and injured. Major efforts were made in 2016 to improve the emergency medical system at Vankor Field by using air transport. In 2016 the following initiatives were taken:

- medical stations were supplied with modern medical equipment and telemedical modules for remote consultation with specialists at Krasnoyarsk District Hospital
- an emergency medical station was opened at Igarka Airport and equipped for intensive care
- the surgery department at Igarka Hospital was renovated and supplied with modern medical equipment
- the road to the hospital from the town heliport was repaired.

Industrial medicine

Efforts were continued in 2016 to develop an Occupational Medicine and High-Tech Center at Medical Unit No. 36 in Angarsk. The unit includes a multi-service clinic with a capacity of 685 visits per shift, a 24-hour inpatient facility with 195 beds, and an emergency section. It currently provides a full range of industrial medical services. In 2016, drawing on the resources of the Occupational Medicine and High-Tech Center, arrangements were made for emergency medical aid and evacuation at 19 medical stations, including:

- 7 medical stations on Angarsk Petrochemical Company's industrial site
- 4 medical stations at Angarsk Petrochemical Company's wellness and recreation facilities
- 2 medical stations in Irkutsk
- 4 medical stations in northern Irkutsk Region
- 2 medical stations in the Republic of Sakha (Yakutia).

These locations offer regular medical check-ups, physicals, preventive measures and vaccinations; employee health is constantly monitored, and occupational illnesses are analyzed.

Disease prevention is an important part of Rosneft's efforts to develop industrial medicine. In 2016 a corporate program for the prevention of cardiovascular disease was launched at Angarsk Petrochemical Company, drawing on the resources of Medical Unit No. 36 in Angarsk. Over 7,000 employees received screening exams. Based on the results, program physicians performed physicals, prescribed outpatient or inpatient treatment for those who needed it, and made recommendations on how to prevent cardiovascular disease. The program was judged to be a successful pilot project and will serve as a model for similar initiatives at other Group entities in 2017-2019.

EMERGENCY MEDICAL TRAINING AT SAMOTLORNEFTEGAZ

In 2016 a major program of special emergency medical training was offered at Samotlorneftegaz. The program involved 82 specialists in industrial medicine and occupational health and safety, 80 specialists from other enterprises and 51 units of equipment.

The training covered the emergency response to an oil spill at a storage facility, with a focus on aid for victims. At all stages of the program, the participants coordinated their efforts to accomplish the tasks set and demonstrated their readiness to respond effectively to emergency situations.

3.3

RUB BILLION
were spent to promote employees' health

Sanatoriums and resorts

Treatment, rehabilitation and wellness programs at sanatoriums and resorts is a key component of social benefits for employees, members of their families and retired veterans of labor. In 2016 a total of 55,460 Rosneft employees improved their health, including 53,410 at sanatoriums in Krasnodar Territory and resorts in Belokurikha, Bashkortostan and other regions of Russia.

Since 2013 Rosneft has offered a wellness program for employees and members of their families in the Republic of Cuba. In the last three years, some 6,000 employees of Group entities and members of their families have vacationed and improved their health at Cuban resorts.

THE LIVE LONGER! PROGRAM TO PROMOTE A HEALTHY LIFESTYLE

The successful Live Longer! program to promote a healthy lifestyle was continued in 2016. Program initiatives at 143 Group entities fell into two main areas:

- Wellness:
  - disease prevention and early diagnosis
  - wellness marathons
- Active lifestyle:
  - promotion of an active lifestyle
  - support for Rosneft sports initiatives.

Major initiatives that Group entities undertook as part of the program included information campaigns, consultations with specialists, diagnostics, and prevention.

Wellness marathons were held in four divisions of Rosneft's head office as well as in 127 Group entities. A wellness marathon is a program lasting a calendar month and focusing on disease prevention and early diagnosis as well as popularization of a healthy lifestyle. It includes examinations by cardiologists, training in how to do on-the-job physical exercises and an information campaign.

A number of initiatives were taken to promote an active lifestyle. One of these, a popular outdoor running program for Rosneft employees, had over 200 participants. Fitness initiatives in 2016 also included a ski club and an amateur triathlon team.

Voluntary health insurance

Voluntary health insurance (VHI) is a key part of the package of benefits provided to Rosneft employees. VHI efforts focus on improving the quality of service and expanding the range of medical services offered to employees under VHI policies and involving the best regional health care facilities in Russia. By the end of 2016, over 200,000 employees were insured under VHI agreements and 220,000 under voluntary personal injury insurance agreements. Approaches to providing employees with voluntary injury insurance continue to be introduced at Rosneft contractors.

To unify the organization of VHI at Group entities, 18 health insurance programs were developed in 2016 for various categories of employees and local regions. New forms of insurance were introduced: international health insurance as well as health insurance for foreign employees and members of their families. In order to optimize the VHI system, Group entities were authorized in 2016 to purchase additional VHI services independently.

Collective bargaining agreement

In 2016 Rosneft continued to work with Rosneft Interregional Trade Union Organization to improve the Model Collective Bargaining Agreement for Group entities. Fifteen clauses were amended in 2016 to enhance employees' social guarantees, including the following changes:

- newly hired employees may obtain their salaries earlier than is stipulated in the collective agreement and internal regulations
- subsidized vouchers may be provided for Group wellness facilities if there are available spots not taken by employees
- the procedure has been changed for calculating temporary disability payments in connection with pregnancy and childbirth to bring remuneration up to the average salary.

55,460

ROSNEFT EMPLOYEES
improved their health in 2016

Partnership with trade union organizations

Rosneft Interregional Trade Union Organization (RITUO), an equal partner of Rosneft, and its constituent united and primary trade union organizations at Group entities play an important role in the area of HR and social policy.

As of the end of 2016, 210 primary trade union organizations united some 180,000 Rosneft employees.

The tradition of annual meetings between representatives of Rosneft's HR and social segment and leaders of RITUO trade union organizations was continued in 2016. The meeting, using the facilities of Rosneft's Nizhnevartovsk enterprises, covered issues of concern to the labor collectives of Group entities, including the timely supply of quality seasonal workwear, treatment and wellness programs at sanatoriums and resorts, and labor compensation and incentives.

The chairs of trade union organizations were surveyed for a deeper understanding of the interaction between Group entity employers and trade unionists. The survey findings indicate that most trade union leaders regard the interaction between Rosneft and the chairs of trade union organizations as highly constructive.

As part of the program to promote a culture of job safety and informed leadership in occupational health and safety, Rosneft is actively developing and implementing measures to popularize the principles of safe and accident-free work, injury prevention and minimization of accident risks. Trade union organizations monitor compliance with occupational health and safety regulations via the institution of health and safety monitors. Rosneft is continually strengthening the health and safety staff of its trade union organizations and provides special training in a timely manner. 2,284 health and safety monitors worked in Rosneft trade union organizations in 2016.

The meeting of Rosneft's HR representatives with leaders of Rosneft Interregional Trade Union Organization in Nizhnevartovsk.

Corporate pension benefits and care for veterans

The corporate pension program that has been in place since 2000 is an important means of enhancing the security of Rosneft employees. In 2016 Rosneft and Group companies paid a total of RUB 5.72 billion in pension contributions to Neftegarant Non-State Pension Fund, of which RUB 445.96 million went to the Veterans Social Support Project.[65]

Pensions are indexed on an annual basis. The average monthly corporate pension rose to RUB 5,220 in 2016. Payments to Neftegarant in 2016 reached RUB 2 billion under two programs: the corporate pension program and the social support project for veterans. A total of around 67,200 people received non-state pensions in 2016: some 39,200 retirees and 28,000 veterans.

A milestone in 2016 was the introduction of a new Rosneft standard of "Corporate Pension Benefits for Employees of Rosneft and Group Entities" (NPB Standard). In the new version of the standard, corporate pensions are calculated using multipliers:

- to encourage employees to conclude individual pension agreements early, thus ensuring substantially greater security upon retirement
- to factor in long years of service at Rosneft.

As part of the standard's implementation, a number of training seminars were held for employees involved in social work and deputy HR directors of Group entities. In addition, some 400 information sessions were held to clarify the terms and advantages of the new NPB Standard for all employees.

65. Veterans are former employees who were employed at Rosneft or a Group entity for 10 or more years, who left before Rosneft or the Group entity concluded a corporate pension agreement with a private pension fund under a uniform private pension program, and who qualified for pension benefits under Russian law when their employment was terminated.

Rosneft extends its corporate pension program to all subsidiary and affiliate Group entities, including those recently acquired. Full-scale implementation of the corporate pension program for employees of Bashneft is to begin on 1 January 2017.

In 2016 the Rosneft Veterans Council continued its important mission to support retired oil workers. Holiday events were organized to celebrate Victory Day, and veterans received flowers and expressions of gratitude. In 2016 Rosneft paid the Veterans Council some RUB 13.6 million for holidays, treatment at sanatoriums and resorts and other essential purposes.

A total of 67,167 people received non-state pensions in 2016: 39,196 retirees and 27,971 veterans.

Corporate pension benefits in 2016

DESCRIPTION	2014	2015	2016
Rosneft's payments to Neftegarant under the pension plan, RUB million	5,093	5,380	5,715
Number of persons receiving corporate pensions	59,702	62,207	67,167
Pension payments, RUB million	1,513	1,706	2,001
Total value of personal pension plans with Neftegarant, RUB million	3,133	3,963	5,062
Number of persons with personal pension plans (as a cumulative total)	48,715	51,996	64,023
Number of Rosneft employees covered by the pension system	over 187,000	over 206,000	over 206,000

67,167

RETIREES AND VETERANS
received non-state pensions
in 2016

SOCIETY

ROSNEFT DEVELOPS ITS SYSTEM APPROACH TO SOCIAL ISSUES IN ORDER TO ESTABLISH PRODUCTIVE LONG-TERM RELATIONS WITH LOCAL COMMUNITIES AND STRENGTHEN ROSNEFT'S IMAGE AS A SOCIALLY RESPONSIBLE COMPANY.

SOCIAL IMPACT MANAGEMENT SYSTEM

In 2016 Rosneft continued to develop its system-wide approach to social issues and the management of social investments in order to minimize social risks, establish productive long-term relations with local communities and strengthen Rosneft's image as a socially responsible company. In its charity programs and support for local regions, Rosneft adheres strictly to the principle of zero tolerance for corruption.

In 2016 Rosneft maintained its status as Russia's largest taxpayers[66].

Rosneft's Procedure on Charity Work by Rosneft and Group Entities took effect in 2016. The procedure is designed to make Rosneft's charity work more effective and transparent by establishing a unified approach to charity transactions and the proper use of funds. The document lays out the goals and tasks of charity work, its main areas, the procedure and conditions for charitable assistance, the sources of financing, and the key principles and rules to be followed by Rosneft and Group entities in doing charity work.

SOCIAL PERFORMANCE IN 2016

Regional partnerships

Comprehensive programs to further the socioeconomic objectives of constituent entities of the Russian Federation are an important part of Rosneft's collaboration with local communities. The programs are largely financed under partnership agreements with administrative bodies in regions of key importance for Rosneft.

These are framework agreements concluded for several years. The obligations assumed under these agreements are performed in accordance with addenda that indicate the specific projects to be realized in a given region.

In 2016 a total of 88 such agreements were in place with government bodies in Rosneft's regions of operation. The following agreements were concluded in 2016:

- cooperation agreements between Rosneft and the governments of Sverdlov, Tver, Tomsk, Arkhangelsk, Tula and Leningrad regions and the republics of Komi and Ingushetia
- addenda to cooperation agreements between Rosneft and the governments of Samara, Kostroma, Magadan, Tula and Tver regions, Khanty-Mansi Autonomous District–Yugra, the Chechen Republic and the Republic of Ingushetia
- agreements between Rosneft and and the governments of Penza and Moscow regions to expand the use of gas engine fuel
- tripartite cooperation agreements between Rosneft, Russian Highways State Company and the governments of Novgorod and Tver regions.

In 2016 Rosneft spent RUB 2,403 million to finance socioeconomic partnership agreements with various regions.

Under current agreements with government bodies in Rosneft's regions of operation, Rosneft and Group entities provided financing to a number of publicly funded institutions and social organizations for initiatives such as the following:

Republic of Ingushetia

- acquisition of two airfield fire trucks for the republic's airport
- construction of a youth recreation and cultural center in Nazran
- repair of water mains
- construction of an indoor ice stadium in Magas.

Khanty-Mansi Autonomous District–Yugra

- road repair
- construction of an indoor culture and education complex in Poykovsky
- competitions in freestyle wrestling, dancesport, skiing, biathlon, boxing, sledge hockey, etc.
- construction of a kindergarten in Nizhnevartovsk
- improvement and reconstruction of municipal facilities in Khanty-Mansi Autonomous District–Yugra
- support for social organizations that protect the rights of people with disabilities
- construction of a sports and recreation center in Singapay
- support for Orthodox and Muslim religious organizations
- upgrading of the infrastructure of preschool institutions
- major road repairs.

Tver Region

- construction of a kindergarten in the residential area of Khotilovo-2.

Samara Region

- socioeconomic development of a number of municipal districts in the region
- reconstruction of the Ice Stadium in Samara
- construction of an ice rink in Novokuibyshevsk.

Magadan Region

- upgrading of Magadan Airport's infrastructure.

Murmansk Region

- construction of a sports and recreation center in Murmansk.

Republic of Karelia

- restoration of the Cathedral of the Annunciation in Kem.

2,403

RUB MILLION
were spent to finance socioeconomic partnership agreements with regions of operation

66. Source: reporting published on companies' official sites.

OPENING OF THE ICE STADIUM IN SYZRAN

Syzran's first ice stadium was officially opened in 2016. Rosneft funded the stadium's construction under a cooperation agreement with the government of Samara Region.

The stadium can seat up to 786 spectators at sports events and shows.

The ice stadium also has choreography and training areas, including for the disabled. The opening is a landmark event for the city of Syzran. The opportunity for year-round training will give a new impetus to the development of winter sports in the city.

CONSTRUCTION OF AN ICE STADIUM AND A YOUTH RECREATION CENTER IN THE REPUBLIC OF INGUSHETIA

In 2016, under a cooperation agreement with the Republic of Ingushetia, Rosneft financed the construction of an indoor ice stadium in Magas and a youth recreation and cultural center in Nazran. The two-story indoor ice stadium with seating for 640 is to be built on 1.68 hectares of land in Magas. The two-story youth recreation and cultural center with an activity hall seating 135 is to be located on 0.63 hectares of land in the city of Nazran.

The construction of an ice stadium and youth recreation center has strategic significance for the region, since it provides activities and means of self-realization for young people as well as a strong impetus for the development of winter sports in the republic.

OPENING OF A NEW WING OF THE CHILDREN'S HOSPITAL IN SARATOV

A new wing of the children's hospital in Saratov was opened. Construction was funded by Rosneft under a cooperation agreement with the government of Saratov Region.

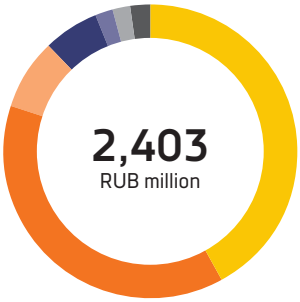
The new wing, designed for 110 patients, meets modern requirements for medical institutions. Laminar air purification systems and an oxygen-charging station were installed in the surgery unit and operating rooms, making all types of anesthetic procedures possible.

Thanks to Rosneft funding, the hospital has been able to expand its range of services in specialized and high-tech medical areas as well as provide greater neonatal, oncology and neurosurgery assistance. This medical facility has the only oncology department in Saratov Region as well as a children's neurosurgery department that offers the latest treatment programs and can perform complex brain surgery.

Expenditures for regional social projects, RUB million

DESCRIPTION	2014	2015	2016
Financing of regional social projects	1,667.0	4,069.1	2,403.0

EXPENDITURES FOR REGIONAL SOCIAL PROJECTS BY AREA IN 2016, RUB MILLION



Sports	1,003
Infrastructure development	921
Culture	187
Preschools	154
Renewal of the cultural heritage	55
Education and science	42
Other expenses	41[67]

Charity

Rosneft does charity work in accordance with the Federal Law "On Charity" and the company's 2016 "Procedure for Charitable Activities of Rosneft and Group Entities."

This procedure identifies the following key areas of Rosneft charity work:

- development of social infrastructure in the Company's regions of operation
- support for veterans and the disabled, including retirees as well as employees and members of their families
- support for the indigenous peoples of the North
- support for education, science, culture, the fine arts, patriotic upbringing and personal development
- support for general, occupational and higher educational institutions as well as Rosneft's own training centers used for the corporate continuing education program School–University–Company
- support for health care and disease prevention, promotion of a healthy lifestyle and improvement of the psychological climate
- environmental protection and wildlife preservation
- support for physical education and amateur sports.

In selecting specific projects and initiatives for funding, Rosneft gives priority to social and infrastructure projects that have the maximum social impact and directly affect the quality of life of local communities, including the employees of Group entities. Charity projects are undertaken by decision of an authorized Rosneft management body in accordance with the approved business plan.

Rosneft spent a total of RUB 1,879 million for charitable purposes in 2016.

1,879

RUB MILLION
were spent for charitable purposes in 2016

67. Including support for veterans, the disabled, retirees, low-income families, youth organizations, city events, social and agricultural institutions and support for the indigenous peoples of the North.

Key charitable projects in 2016 included donations to:

- the “Open Hearts” Krasnoyarsk Regional Parents’ Organization for the Rights of Children with Special Needs – for efforts to establish a comprehensive medical emergency response system on Vankor Field
- Krasnoyarsk Territorial Veterans’ Hospital – for new medical equipment
- Pavlovsk State Museum and Park – for restoration and fabrication of picture frames
- the Anatoly Granov Charitable Foundation for the Support of Modern Medical Technologies – to provide funding for the Russian Scientific Center for Radiology and Surgery Technologies
- the Pushkin (Alexandrinsky) State Academic Drama Theater – for performances at the Chekhov Moscow Art Theater and the Meyerhold Theater Center
- the Administration of Purovsky Municipal District – to support the indigenous peoples of the North and improve the infrastructure of agricultural enterprises
- the Olympic Training Center – to prepare athletes and trainers in Yamal-Nenets Autonomous District
- the Town Hospital of the Resort Town of Gelendzhik – for infrastructure improvements
- the administration of a municipal district of the city of Yuzhno-Sukhokumsk for the reconstruction of its eternal flame monument.

MODERNIZATION OF MEDICAL INSTITUTIONS

Rosneft provided financing to the “Open Hearts” Krasnoyarsk Regional Parents’ Organization for the Rights of Children with Special Needs as part of its charitable program to ensure rapid evacuation of injury victims in remote regions to Igarsk Hospital. For this purpose, modern medical equipment and an all-terrain ambulance were purchased for RUB 17.2 million, and the surgery department, the operating suite and the road from the hospital to the heliport were repaired for RUB 22 million.

In 2016 Rosneft also gave RUB 25 million in funds to Krasnoyarsk Territorial Hospital for the purchase of medical equipment.

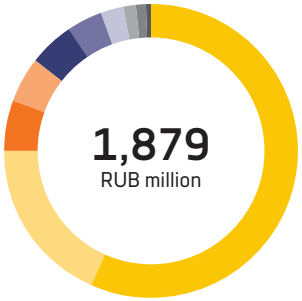
EVENK REINDEER SOCIAL AND ENVIRONMENTAL PROJECT

Evenk Reinder, a joint project of East Siberian Oil and Gas Company and Siberian Federal University launched in 2014, helps to maintain the largest population of wild reindeer. With the number of reindeer declining across the Russian North, this major study will allow scientists to assess the condition of the species and develop effective means of preserving it.

Rosneft's charity expenditures, RUB million

DESCRIPTION	2014	2015	2016
Charity expenditures	2,572.8	2,282.5	1,879.3[68]

CHARITY EXPENDITURES BY CATEGORY IN 2016, RUB MILLION



Education and science	1,068
Infrastructure development in regions, districts and municipalities	345
Health care	106
Support for veterans, the disabled and people in need	95
Charities, NGOs, humanitarian aid	95
Culture	71
Support for the indigenous peoples of the North	48
Children's homes	26
Sports	20
Other	5[69]

Support for the indigenous peoples of the North

Support for the indigenous peoples of the North is one of Rosneft's traditional charity focuses. For many years, Rosneft has promoted the economic development of the indigenous peoples of the North, funding equipment for their traditional occupations and providing for housing construction and repair, social facilities and infrastructure. Another important focus is the preservation of the unique cultures and traditional way of life of northern peoples.

Group entities in Sakhalin, Khanty-Mansi and Yamalo-Nenets autonomous districts and Krasnoyarsk and Khabarovsk territories make a valuable contribution in this area. For example, to preserve the culture of peoples of the North, Rosneft takes part in organizing such traditional events as dogsled races for young athletes in the Evenk District of Krasnoyarsk Territory and Reindeer Breeder Day in the national settlement of Kharampur on Yamal Peninsula.

48.2

RUB MILLION
were spent to support
the indigenous peoples of the North

68. Charity expenditures in the 2016 Annual Report do not include support for universities and pre-university education.
69. Including support for retirees, low-income families, youth organizations, city events and social and agricultural institutions.

SUPPORT PROVIDED BY RN-YUGANSKNEFTEGAZ FOR INDIGENOUS PEOPLES OF THE NORTH

RN-Yuganskneftegaz operates over several extensive areas inhabited by indigenous peoples of the North: the Yugansk, Pravdinsky, Maysky, Salym and Priobsky areas of Khanty-Mansi, Surgut and Nefteyugansk districts. Rosneft cultivates mutually beneficial relations with the peoples of the North, always consulting them on the location of oil production facilities and paying compensation for any industrial use of land inhabited by indigenous peoples.

Since most indigenous people live in yurts far from major centers of population, RN-Yuganskneftegaz ensures a supply of items needed for their traditional occupations, household appliances, furniture, industrial goods and construction materials. In the winter, RN-Yuganskneftegaz makes helicopter deliveries to winter camps where the Khanty live until the end of the hunting season. Before the start of each school year, transportation is arranged centrally to take children to boarding schools.

In money terms, between RUB 100,000 and 155,000 is spent per indigenous northerner each year.

Expenditures to support the indigenous peoples of the North, RUB million

DESCRIPTION	2014	2015	2016
Expenditures to support the indigenous peoples of the North	102.4[70]	54.1	48.2

Expenditures to support the indigenous peoples of the North by category in 2016, RUB million

DESCRIPTION	2016
Software expenditures	45.4
Expenditures to preserve native culture and for health-improvement programs	2.8

70. The value for 2014 includes payments of RUB 49.8 million to compensate losses incurred by traditional users of natural resources and reclamation work in connection with the construction of Company facilities.

A NEW KIND OF BREAD FOR PEOPLES OF THE NORTH

Group entities have traditionally funded scientific research of practical significance for peoples of the North. In 2016, drawing on a grant provided by East Siberian Oil and Gas Company, Siberian Federal University completed a project to create a new kind of bread high in nutrients and microelements for residents of northern Krasnoyarsk Territory.

A diet lacking sufficient nutrients can be a problem for indigenous northerners as well as for rotation workers from other parts of the country. Bread that is high in nutrients makes for easier adaptation to the harsh climatic conditions. If eaten regularly, the new bread will supply lacking nutrients and help in preventing diabetes, atherosclerosis, autoimmune disorders, cardiovascular disease and other ailments.

The technology, certified to meet Russian standards, will be transferred to the Evenk District for use in municipal and private bakeries, including the mini-bakery in the canteen on the Yuruchbeno-Tokhomskoye Field.

Sponsorship

Sponsorship is an important component of Rosneft's social investments. Rosneft and Group entities engage in sponsorship under Russian law and the Regulation on Sponsorship at Rosneft and Group Entities.

Rosneft sponsorship traditionally focuses on renewing the country's spiritual and national values, supporting culture, science and education, promoting scientific and technological advances and developing professional and amateur sports.

Each year over 500 requests are received for Rosneft to sponsor various projects. Rosneft spent a total of RUB 973 million on sponsorship in 2016.

Rosneft traditionally sponsors professional and amateur sports, including the CSKA Hockey Club and popular Russian football teams, and the Lada Sport Rosneft team is a regular competitor at prestigious auto rallies. In 2016 Rosneft financed international sambo tournaments in Russia, Bulgaria, Scotland and other countries as well as boxing matches in Latin America.

In 2016 Rosneft had a part in sponsoring a unique exhibition of works by the Italian master Raphael at the Pushkin Museum of Fine Arts. Visitors saw the legendary canvases Madonna del Granduca from the Palatine Gallery, Head of an Angel from the Pinacoteca Tosio Martinengo, Portrait of a

973

RUB MILLION –
expenditures on sponsorship
in 2016

With Rosneft sponsorship support, the Philharmonia organized a tour for the orchestra under the direction of Yuri Temirkanov at the main performing stages.

Young Woman from the Galleria Nazionale delle Marche in Urbino, and The Ecstasy of St. Cecilia from the National Art Gallery of Bologna.

In 2016 Rosneft became the general sponsor of a Samara tour by St. Petersburg's Boris Eifman State Academic Ballet Theater. In 2017 the theater will play to audiences in Khabarovsk, Vladivostok, Krasnodar and other other cities in which Rosneft has a presence.

In 2016 Rosneft as a general sponsor or partner participated in business events at various levels, including the Eastern International Economic Forum and the St. Petersburg International Economic Forum.

Since 2015 Rosneft has been a general partner of the St. Petersburg Philharmonia. With Rosneft sponsorship, the Philharmonia held International festivals with world stars participation, created opportunities in professional growth for many young performers, organized a tour for the orchestra under the direction of Yuri Temirkanov on the main performing stages

Since 2013 Rosneft has also carried out a successful program of support for polar bears in Russian zoos.

SPORTS AND CULTURAL EVENTS

Summer and Winter Spartakiads

For many years, Rosneft has made far-reaching efforts to develop sports and promote a healthy lifestyle among its employees and local communities. Annual summer and winter Spartakiads are an important part of these efforts. Rosneft corporate sports events promote an active way of life and give employees an opportunity to demonstrate their sports achievements.

Around 3,000 employees of 92 Group entities took part in the 2016 Spartakiads.

The Sixth Winter Spartakiad was held in Krasnoyarsk at the Arena Sever and Rassvet sports centers as well as on the ski trails of the Biathlon Academy. 437 athletes representing 23 Group entity teams competed for medals in four sports: hockey, skating, skiing and luge relay. The Angara united team took the gold medal in the team competition, the Achinsk Refinery team won silver, and the Udmurtneft team went home with bronze.

3,000

EMPLOYEES
of 92 Group entities took part
in Summer and Winter Spartakiads
in 2016

The Sixth Winter Spartakiad was held in Krasnoyarsk at the Arena Sever and Rassvet sports centers as well as on the ski trails of the Biathlon Academy. 437 athletes representing 23 Group entity teams competed for medals.

The finals of the 2016 Summer Spartakiad in Sochi had over 700 participants from 18 Group entities, representing 8 regional zones from Khabarovsk to Ryazan. Including the local stages, a total of 2,500 athletes competed in 14 sports: basketball, volleyball, indoor football, table tennis, powerlifting (push-pull), relay races and other track events, tug-of-war, chess, billiards and bowling. The Novokuibyshevsk Refinery team took first place, the Angara united team took second, and the Samaraneftegaz team came in third.

In 2016 Rosneft held its sixth annual "Rosneft Lights the Stars" Festival, in which over 1,500 employees and members of their families participated.

The "Rosneft Lights the Stars" Festival

In 2016 Rosneft held its sixth annual "Rosneft Lights the Stars" Festival, in which over 1,500 employees and members of their families competed for the favor of the audience and judges in various categories: vocal and dance, vocal and instrumental, variety and circus, and art. In 2016, preliminary rounds were held at 88 Group entities, followed by local rounds in Krasnoyarsk, Samara, Tuapse and Moscow.

The finals were judged by a professional panel, including prominent members of the Russian creative community. The performances were notable for their innovative ideas and high level of professionalism. The level of talent increases markedly each year, and the festival is growing in importance as a cultural event, uniting several generations of oil workers in various towns, cities and regions of the country.

1,500

EMPLOYEES
and members of their families
participated in sixth annual
"Rosneft Lights the Stars" Festival

INDEPENDENT ASSURANCE REPORT ON THE SUSTAINABILITY REPORT 2016

Building a better working world

Independent Assurance Report on the Sustainability Report 2016

To the Board of Directors and Stakeholders of Rosneft Oil Company

Subject matter

At the request of Rosneft Oil Company (hereinafter 'the Company') we have obtained a limited level assurance on the qualitative and quantitative information disclosed in the Sustainability Report 2016 of Rosneft Oil Company (hereinafter 'the Report') except for the following matters:

- Forward-looking statements on performance, events or planned activities; and
- Correspondence between the Report and the Oil and Gas Industry Guidance on Voluntary Sustainability Reporting developed by the International Petroleum Industry Environmental Conservation Association and American Petroleum Institute ('IPIECA/API'), Basic Performance Indicators issued by the Russian Union of Industrialists and Entrepreneurs ('RUIE'), and UN Global Compact principles.

Applicable criteria

The criteria of our engagement were the GRI Sustainability Reporting Framework (hereinafter 'the GRI Framework'), including version G4 of the Sustainability Reporting Guidelines (hereinafter 'the GRI G4 Guidelines') and the sustainability reporting principles of Rosneft as set out in section 'About the report' on pages 10-11 of the Report. We believe that these criteria are appropriate given the purpose of our assurance engagement.

Management's responsibilities

The management of Rosneft is responsible for the preparation of the Report and for the information therein to represent fairly in all material respects sustainability policies, activities, events and performance of Rosneft for the year ended December 31, 2016 in compliance with the GRI Framework and the sustainability reporting principles of the Company that are described in section 'About the report' on pages 10-11 of the Report. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation of a sustainability report that is free of material misstatements, selecting and applying appropriate reporting principles and using measurement methods and estimates that are reasonable in the circumstances.

Our responsibilities

Our responsibility is to independently express conclusions that:

- The information in the Report is, in all material respects, a reliable and sufficient representation of sustainability policies, activities, events and performance of Rosneft for the year ended December 31, 2016;
- The Report is prepared 'in accordance' with the GRI G4 Guidelines using the Core option.

Building a better working world

We apply International Standard on Quality Control 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Summary of work performed

Our engagement was conducted in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information, issued by IFAC, and accordingly included the following procedures:

- Interviews with representatives of the Company management and specialists responsible for its sustainability policies, activities, performance and relevant reporting,
- Analysis of key documents related to Company sustainability policies, activities, performance and relevant reporting,
- Obtain understanding of the process used to prepare the information on sustainability performance indicators of the Company and other engagement circumstances by reviewing the reporting process used for preparation of sustainability reports,
- Analysis of Rosneft's stakeholder engagement activities via reviewing minutes of stakeholder meetings conducted by Rosneft,
- Benchmarking of the Report against sustainability reports of selected international and Russian peers of the Company and lists of sector-specific sustainability issues raised by stakeholders,
- Review of a selection of corporate and external media publications with respect to the Company sustainability policies, activities, events, and performance in 2016,
- Analysis of material issues in field of sustainable development identified by the Company,
- Identification of sustainability issues material for the Company based on the procedures described above and analysis of their reflection in the Report,
- Review of data samples regarding key human resources, energy usage, environmental protection, health and safety, and charitable activities indicators for the year ended December 31, 2016 to assess whether these data have been collected, prepared, collated and reported appropriately at the central office level,
- Visit to Rosneft's subsidiary - PJSC Bashneft Oil Company, including subsidiary's central office and its branch oil refinery Bashneft-Ufaneftechem – in order to interview subsidiary's employees responsible for human resources, energy supply and efficiency, charity, health, safety and environment and gather evidence supporting the assertions on Rosneft sustainability policies, activities, events, and performance made in the Report, as well as to observe health, safety and environmental aspects of the operations,
- Collection on a sample basis of evidence substantiating the qualitative and quantitative information included in the Report at the central office level,
- Assessment of compliance of the Report and its preparation process with Rosneft's sustainability reporting principles, and

- Assessment of compliance of information and data disclosures in the Report with the requirements of the Core option of reporting 'in accordance' with the GRI G4 Guidelines.

Our evidence gathering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement.

Conclusion

Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the information in the Report does not represent fairly, in all material respects, the sustainability policies, activities, events and performance of the Company for the year ended December 31, 2016 in accordance with the GRI Framework and sustainability reporting principles of the Company.

Nothing has come to our attention that causes us to believe that the Report is not prepared 'in accordance' with the GRI G4 Guidelines using the Core option.

Signed: D.E. Lobachev
General director, Ernst & Young LLC
June 29, 2017

Details of the subject of the independent assurance

Name: Rosneft Oil Company
Entered in the Unified state register of legal entities August 12, 2002 and assigned state registration number 1027700043502.
Registered address and location: Russia, 115035 Moscow, Sofiyskaya emb., 26/1.

Details of the assurance provider

Name: Ernst & Young Limited Liability Company
Entered in the Unified state register of legal entities December 5, 2002 and assigned state registration number 1027739707203.
Registered address and location: Russia, 115035 Moscow, Sadovnicheskaya emb., 77, bld. 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors "Russian Union of auditors" (Association) ("SRO RUA").
Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

ANNEXES

ANNEX 1.

PROGRESS AGAINST THE 2016 OBJECTIVES SET IN THE 2015 SUSTAINABILITY REPORT

OBJECTIVE	PROGRESS
INNOVATION	
Implement Program Innovation Projects as scheduled	A technology has been developed to detect fractured-cavernous reservoirs and determine their properties by applying innovative techniques for processing and interpretation of scattered waves. The technology has been successfully tested at the Labagansky, Kuyumbinsky and Yurubchensky license areas as part of the pilot development program and moved into the deployment phase A study to explore the potential of Upper Jurassic intervals at license areas operated by RN-Yuganzkneftegaz has been completed, with an extended logging set recorded along with a core analysis program completed in three wells. Based on the study, a 1D geomechanical model and a directional hydraulic fracturing model have been built, followed by HV slickwater fracturing in two deviated production wells. The results will be used to build a multi-stage fracturing model that will be tested on two horizontal wells Rosneft has developed 20 new methods for analyzing core samples from complex or unconventional reservoirs. The new analytical methods are designed to provide more insight into reservoir lithological and mineralogical composition, porosity, permeability, mechanical properties and other parameters. Following their approval by government authorities, the methods have been adopted by the Company's research and design (R&D) institutes A beta version of a hydraulic fracturing simulator has been developed and is now being tested at the Company's specialist units. Building unique geotechnical capabilities will allow the Company to improve the economic and operating performance of its OFS business and end dependence on foreign technologies The Company has developed a high-resolution electrical resistance sensing technology and designed a prototype of an electromagnetic probe with toroidal coils Rosneft has developed a system of catalytic hydrogenation of vacuum gasoil, consisting of HtVG-610RN hydrodesulfurization catalysts and HtVG-600 RN denitrogenation catalysts, to obtain an improved-quality product containing less than 500 ppm of residual sulfur, 350 ppm of nitrogen and 10 ppm of heavy metals A pilot batch of Ht-100RN diesel hydrotreating catalysts has been produced, with independent tests performed in the course of the hydrotreatment of directly distilled diesel to compare catalyst performance against its foreign counterpart. The produced catalyst has proved to be more effective than its foreign counterpart at temperatures of 380-410°C, pressure of 4.0 MP and the feedstock flow rate of 1.0 h^{-1} The Company has developed isodewaxing catalysts to produce mineral base oils with a low pour point (not higher than minus 50°C) that are used for low-temperature adapted lubricants. The main advantage of the new catalyst is that it has a higher base oil yield
Implement the Pilot Testing and Deployment Projects	As part of the implementation program, in 2016 the Company deployed and rolled out 141 new technologies which had previously undergone pilot tests and demonstrated technical and economic efficiency. The Company spent RUB 12,528 million to deploy and roll out 10.8 thousand items
ENVIRONMENTAL SAFETY	
Develop a package of measures to improve environmental awareness	A package of measures to improve environmental awareness has been developed, agreed by top managers, and approved by Vice President for HSE and Chief Executive Officer of the Company. The activities scheduled for 2016 were completed
Develop standards for production and consumption waste management (including waste from construction and installation work) and the remediation of disturbed and contaminated land	The drafts of these standards are being agreed and approved at the corporate level
Contribute to a re-certification audit to establish the conformity of the integrated HSE system to ISO 14001 and take steps to align corporate practices with the requirements of ISO 14001:2015 "Environmental Management Systems"	An audit to establish the conformity to ISO 14001:2015 was performed. An unqualified opinion has been issued to confirm the validity of the certificate. An action plan to align corporate practices with the requirements of ISO 14001:2015 has been agreed by dedicated top managers and sent to the Chief Executive Officer for approval. The activities scheduled for 2016 were completed
Raise APG utilization at Russian upstream assets to 88%	In 2016, Rosneft continued to implement its Gas Investment Program to increase the associated petroleum gas utilization rate to 90%

OBJECTIVE	PROGRESS
OCCUPATIONAL HEALTH AND SAFETY	
Reduce the incidence rate of non-fatal injuries per million hours worked	Incidence rate of non-fatal injuries was reduced to 0.210 from 0.327 in 2015
Enhance hazard identification and risk assessment processes	The "Algorithm (model) for assessing the risk of occupational injuries" and "Algorithm (model) for assessing the accident risk" have been developed and approved
Implement the target program for upgrading and enhancing fire protection capabilities across Rosneft Group entities until the end of 2016	Rosneft bought 180 fire trucks, 384 units of firefighting equipment and 881 tonnes of foam generating agent
EMPLOYEES	
Develop and approve a standard Staff Handbook for Group entities	The Standard Regulation on Internal Rules and Regulations of Group entities has been developed and approved
Develop a system of project rewards for the Company's employees	The concept of a system of project rewards has been developed
Update existing bonus plans across Group entities based on integral industry ratings	Rosneft's rules for tallying the results have been updated and approved
Continue to roll out the single SAP/1C corporate template ("the SCT") for personnel accounting and payroll that was earlier introduced at a selected group of entities on a trial basis	In summer 2016, the roll-out of the SAP-based SCT information resource was completed in 5 Group entities (15 thousand employees) In September 2016, the roll-out of the SAP-based SCT information resource was commenced in 10 Group entities (over 20 thousand employees) The SCT methodology has been approved, and the development of the 1C-based SCT information resource for small Group entities has been completed. However, the resource has not been launched due to the failure to purchase the server equipment to be used for launching the 1C-based resource within the established deadlines The kick-off of the project to roll out the 1C-based template has been postponed by 1 year
Promote the Company's active involvement in establishing a national system of competencies and qualifications	The Company has begun work to implement professional standards, in particular, the Order on the establishment of the commission for the implementation of professional standards in Rosneft has been approved. Since 2015, employees from the Company's HR department have been involved in the work of the Council for Professional Qualifications in the Oil and Gas Sector: – Regular expert reviews of draft professional standards and regulatory documents related to the development of the national system of competencies and qualifications – Development and update of industry-specific standards for five key professional occupations
SOCIETY	
Continue engagement with local communities, including through agreements with local authorities on social and economic partnership	In 2015, Rosneft signed partnership agreements with the governments of the Sverdlovsk Region, Tver Region, Tomsk Region, Arkhangelsk Region, Tula Region, Leningrad Region, the Komi Republic, the Republic of Ingushetia, as well as additional agreements with the governments of the Samara Region, Kostroma Region, Magadan Region, Tula Region, Tver Region, Khanty-Mansi Autonomous District – Yugra, the Chechen Republic and the Republic of Ingushetia. The parties are to cooperate on a number of specialized industrial, financial, investment and social programs

OBJECTIVES FOR 2017-20

2017	2018-20
INNOVATION	
Undertake the activities included in the Innovation Program	Maintain the reserve replacement rate at or above the 100% benchmark
	Achieve maximum allowable recovery rates from new fields and take systemic steps to increase recovery rates from mature fields
	Develop technologies to promote the economic viability of unconventional hydrocarbons
	Increase refining complexity
ENVIRONMENTAL SAFETY	
Achieve environmental targets for 2017 established in Rosneft's Long-Term Development Program	Achieve environmental targets established in Rosneft's Long-Term Development Program
Ensure the operation and improvement of the integrated HSE system	
Undertake the 2017 activities outlined in the Environmental Management Efficiency Program for the period until 2025	
Undertake the activities aimed to preserve a healthy and sustainable environment in the regions of the Company's presence: 1. Meet current environmental obligations in a timely manner (reduce the area of disturbed lands, production and consumption waste and accrued waste, and reintroduce it into the economic cycle) 2. Reduce damages caused by third party activities at the Company's sites until they are completely eliminated 3. Protect water bodies, decrease water consumption by means of increasing the share of reused water in total water used for production, and reduce industrial pollutant load in wastewater 4. Protect air, reduce total pollutant emissions	
Contribute to the development of Best Available Techniques (BAT) reference documents to be finalized by the Russian Ministry of Energy and the Russian Ministry of Natural Resources and Ecology in 2017 through the involvement of the Company's employees	
Ensure the establishment and operation of subordinate organizations of corporate research and design institutes responsible for environmental protection in order to examine and implement best practices and methods of manufacturing goods, performing work or providing services	
Implement the program/action plans aimed to preserve biological diversity, including for the purposes of implementing offshore projects in the Arctic region	
Develop and implement a package of measures to improve environmental awareness of the Company's employees	
Develop and implement locally adapted methodological guidelines for quantitative assessment of greenhouse gas emissions	
OCCUPATIONAL HEALTH AND SAFETY	
Develop/update local occupational health and safety regulations as scheduled	Improve the quality of fire protection at Bashneft's production facilities located in the Republic of Bashkortostan
Implement the Program of Enhanced Job Safety and Informed Leadership in Occupational Health and Safety	Implement the Program of Enhanced Job Safety and Informed Leadership in Occupational Health and Safety
Reduce the incidence rate of non-fatal injuries per million hours worked	
Obtain an unqualified opinion based on the results of the OHSAS 18001 compliance audit of the integrated HSE system	Certificate Group entities to ensure compliance with OHSAS 18001 (by 2020 – 80 Group entities)
EMPLOYEES	
Continue to roll out the unified corporate HR, compensation and social development template	Complete the roll-out of the unified corporate HR, compensation and social development template in order to expand SCT procedures to at least 80% of the Company's entities as part of the implementation of the Strategy (plan) for the automation of HR business processes to 2020
Continue to develop and implement standard organizational/functional structures for the corporate functions of Group entities	Optimize HR processes to meet the Company's needs Develop/update existing internal regulations governing HR management processes
Update methodologies used to calculate labor efficiency indicators for Group entities, the Company's core business segments, and the Company as a whole. Implement updated methodologies in Group entities and the Company's head office divisions to improve labor productivity	Align organizational structures of Group entities with the requirements of the Company's Regulation "Procedure for introducing and approving changes in organizational structures of Group entities" as part of personnel management activities performed under the Company's Long-Term Development Program
Continue to implement professional standards in the Company's operations	
SOCIETY	
Continue engagement with local communities, including through agreements with local authorities on social and economic partnership	

ANNEX 2.

GRI CONTENT INDEX

Correspondence between this Report and Sustainability Reporting Guidelines of Global Reporting Initiative (GRI G4), the Oil and Gas Industry Guidance on Voluntary Sustainability Reporting by IPIECA/ API (2010), UN Global Compact 'Ten Principles' and the RUIE basic performance indicators for non-financial reporting (2008)

ASPECT[71]	INDICATOR	DEFINITION	REPORT SECTION	EXCLUDED INFORMATION	PAGE	EXTERNAL ASSURANCE
GENERAL STANDARD DISCLOSURES						
STRATEGY AND ANALYSIS						
	G4-1	Statement from the Chairman of the Management Board about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability	Message from the Chairman of the Board of Directors Message from the Chief Executive Officer		2–5	+
	G4-2 IPIECA-HS4	Description of key impacts, risks, and opportunities	Message from the Chief Executive Officer Key sustainability performance indicators Sustainability management Risk management and internal control Stakeholder engagement Occupational health and safety Emergency prevention and response readiness Environment Human resources Society Annex 1. Progress against the 2016 objectives set in the 2015 Sustainability Report Objectives for 2017-2020		4–9 30–43 49–52 59–71 83–85 105–106 120–122	+
		For more information, please visit https://www.rosneft.ru/				
ORGANIZATIONAL PROFILE						
	G4-3	Name of the organization	Contact information		140	+
	G4-4	Primary brands, products, and services	The Company in 2016: general information		14	+
		Primary products include oil, gas and refined products				
	G4-5	Location of the organization's headquarters	*The Company's head office is located in Moscow*			+
	G4-6	Number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report	The Company in 2016: general information		14	+
		See the 2016 Annual Report (Sections 1.1. Assets and regions of operation in 2016, and 1.2. Company structure, pp. 10-13)				
	G4-7	Nature of ownership and legal form	The Company in 2016: general information		14	+
		See the 2016 Annual Report (Section 5: Information for shareholders and investors – 5.1. Share capital, pp. 177-179)				
	G4-8	Markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries)				+
		See the 2016 Annual Report (Sections 1.1. Assets and regions of operation in 2016, and 1.2. Company structure, pp. 10-13; Appendix 1: Consolidated financial statements, Note 9: Segment information, pp. 253-254, Note 40: Key subsidiaries, p. 276; Appendix 6: Audit report on the financial statements, Note 25: Segment information, p. 340)				

71. Unless stated otherwise, the aspect boundaries comprise Rosneft and Group entities in accordance with the scope indicated in the Reporting Boundaries section

ASPECT	INDICATOR	DEFINITION	REPORT SECTION	EXCLUDED INFORMATION	PAGE	EXTERNAL ASSURANCE
	G4-9	Scale of the organization	Key sustainability performance indicators Human resources		6–9 83–84	+
		See the 2016 Annual Report (Section 2.1 Business model of the Company, pp.40-42, Section 2.3 Results of implementation of the Development Strategy and the Long-term Program in 2016, pp. 46-50; Appendix 1: Consolidated financial statements, Note 9: Segment information, pp. 253-254, Note 40: Key subsidiaries, p. 276; Appendix 6: Audit report on the financial statements, Note 25: Segment information, p. 340)				
	G4-10 RUIE – 3.1.1	Number of employees	Key sustainability performance indicators Human resources – HR management system – Staff structure		9 85	+
		92.1% of Company employees are hired under permanent employment contracts and 99.6% of employees work on a full-time basis. 66% are men and 34% are women				
	G4-11 UN GC Principle 3 RUIE – 3.1.4	Percentage of total employees covered by collective bargaining agreements	Human resources – HR performance in 2016 – Collective bargaining agreement		102	+
	G4-12	Description of the organization's supply chain				+
		See the 2016 Annual Report (Section 2.1 Business model of the Company, pp. 40-42)				
	G4-13	Description of any significant changes during the reporting period regarding the organization's scale, structure, ownership, or its supply chain	Message from the Chairman of the Board of Directors Message from the Chief Executive Officer The Company in 2016: general information Corporate governance		2–5 14–29	+
	G4-14 IPIECA-EN5, HS4	Reporting whether and how the precautionary approach or principle is addressed by the organization				+
		The Company considers it important to conduct an environmental impact assessment that provides inputs for measures to mitigate any negative environmental impact from future operations				
	G4-15 RUIE – 3.3.4	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses				+
		In 2009, the Company joined the UN Global Compact and the Social Charter of Russian Business, and it has endorsed the Anti-Corruption Charter of Russian Business since 2013				
	G4-16 RUIE – 3.3.5	Memberships of associations (such as industry associations) and national or international advocacy organizations				+
		The Company is a member of the following initiatives and organizations: *Union of oil and gas industry organizations, Russian Gas Society* *Association of subsoil use organizations, National Association for Subsoil Examination* *Russian National Committee for Pacific Economic Cooperation* *Chamber of Commerce and Industry of the Russian Federation* *Russian-German Chamber of Foreign Trade* *Nonprofit Partnership Russian National Committee for UNEP (UNEPCOM)* *Association of Oil Refiners and Petrochemists*				
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES						
	G4-17	List of all entities included in the organization's consolidated financial statements or equivalent documents. Report on whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report	About the Report – Reporting boundaries		11	+
		See the 2016 Annual Report (Appendix 1: Consolidated financial statements, Note 40: Key subsidiaries, p. 276)				
	G4-18	Process for defining the report content and the Aspect Boundaries Reporting principles for defining report content	About the Report		10–11	+
	G4-19	List of all the material Aspects identified in the process for defining report content	About the Report This Annex		10–11 123-134	+

ASPECT	INDICATOR	DEFINITION	REPORT SECTION	EXCLUDED INFORMATION	PAGE	EXTERNAL ASSURANCE
	G4-20	Description of the Aspect Boundary within the organization for each material Aspect	About the Report This Annex		10–11 123-134	+
	G4-21	Description of the Aspect Boundary outside the organization for each material Aspect	About the Report This Annex		10–11 123–134	+
		The boundaries for OHS comprise both the Rosneft Group and the contractors working at the production facilities of Group entities				
	G4-22	Description of any restatements of information provided in previous reports, and the reasons for such restatements	About the Report Key sustainability performance indicators Occupational health and safety – Health and safety performance in 2016 Environment – Environmental performance in 2016		6–11 53–58 72–80	+
		The development and improvement of the corporate reporting system and changes in the reporting boundaries and retrospective information are the key reasons for the restatements of information provided in the Report				
	G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries	About the Report		10–11	+
STAKEHOLDER ENGAGEMENT						
	G4-24	List of stakeholder groups engaged by the organization	About the Report Stakeholder engagement		10–11 39–43	+
	G4-25	Basis for identification and selection of stakeholders with whom to engage	Stakeholder engagement		39–43	+
		The Company engages with all stakeholder groups which influence the Company's activities and which are influenced by the Company's activities				
	G4-26	Organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group	About the Report Stakeholder engagement		10–11 39–43	+
	G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting	About the Report Stakeholder engagement		10–11 39–43	+
REPORT PROFILE						
	G4-28	Reporting period	About the Report		10–11	+
	G4-29	Date of most recent previous report				+
		Rosneft Sustainability Report 2015 was published in October 2016				
	G4-30	Reporting cycle	About the Report		10–11	+
	G4-31	Contact point for questions regarding the report or its contents	About the Report Contact information		10–11 140	+
	G4-32	"In accordance" option the organization has chosen GRI Content Index for the chosen option Reference to the External Assurance Report	About the Report Independent Assurance Report on the Sustainability Report 2016 This Annex		10–11 115–118 123–134	+
	G4-33	Policy and current practice with regard to seeking external assurance for the report	About the Report Independent Assurance Report on the Sustainability Report 2016 This Annex		10–11 115–118 123–134	+
GOVERNANCE						
	G4-34 IPIECA-HS4	Governance structure of the organization, including committees of the highest governance body and committees responsible for decision-making on economic, environmental and social impacts	Corporate governance		24–29	+
		See the 2016 Annual Report (Corporate governance system, pp. 130-167, Rosneft's Board of Directors, pp. 140-148)				
	G4-36	Report on whether the organization has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body	Corporate governance		24–29	+

ASPECT	INDICATOR	DEFINITION	REPORT SECTION	EXCLUDED INFORMATION	PAGE	EXTERNAL ASSURANCE
ETHICS AND INTEGRITY						
	G4-56 UN GC Principle 10	The organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	Sustainability management		30–33	+
		For more information, please visit https://www.rosneft.com/Investors/Documents/ Company sustainability Policy https://www.rosneft.com/upload/site2/01/0101/P3-01_eng_.pdf Rosneft Code of Business Ethics https://www.rosneft.com/upload/site2/document_file/Kodeks_eng.pdf				
	G4-57 UN GC Principle 10	Internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice lines	Sustaiability management – Compliance framework		31–32	+
	G4-58 UN GC Principle 10	Internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines	Sustaiability management – Compliance framework		31–32	+
SPECIFIC STANDARD DISCLOSURES						
CATEGORY: ECONOMIC						
Economic performance	G4-DMA RUIE – 1.1	Disclosures on management approach				+
		See the 2016 Annual Report (Assessment of KPI target achievement, pp. 53)				
	G4-EC1 IPIECA-SE4, SE13 RUIE – 1.2, 1.3, 1.4, 1.5, 1.6, 1.7	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments	Key sustainability performance indicators		6	+
	G4-EC3 RUIE – 1.8	Coverage of the organization's defined plan obligations	Human resources – HR performance in 2016 – Corporate pension benefits and care for veterans		103-104	+
		According to the findings from the actuarial valuation of Neftegarant Non-state Pension Fund in 2016, the fund's current financial position is stable and it is virtually certain that the fund will be able to meet its obligations (see http://www.neftegarant.ru/pokazateli/actuar.php)				
	G4-EC4	Financial assistance received from government				+
		The Company and Group entities benefit from tax reliefs established by federal tax legislation. In a number of regions, the Company and Group entities benefit from tax reliefs for income tax and property tax, in accordance with regional legislation				
Indirect economic impacts	G4-DMA	Disclosures on management approach	Message from the Chairman of the Board of Directors Message from the Chief Executive Officer Society		2–5 105–114	+
	G4-EC7 IPIECA-SE7	Development and impact of infrastructure investments and services supported	Key sustainability performance indicators Society – Social performance in 2016		6–9 106–114	+
	G4-EC8 IPIECA-SE6	Significant indirect economic impacts, including the extent of impacts	Message from the Chairman of the Board of Directors Message from the Chief Executive Officer Society		2–5 105–114	+
Procurement and localization practices	G4-DMA	Disclosures on management approach	The Company in 2016: general information – Import substitution and localization		22–23	+
		The Company uses competitive bidding procedures to select vendors. All other factors being equal, preference is given to local bidders				
	G4-EC9 IPIECA-SE5	Proportion of spending on local suppliers at significant locations of operation	The Company in 2016: general information – Import substitution and localization		22–23	+

ASPECT	INDICATOR	DEFINITION	REPORT SECTION	EXCLUDED INFORMATION	PAGE	EXTERNAL ASSURANCE
Proved reserves	G4 OG-DMA	Disclosures on management approach				+
		See the 2016 Annual Report (Rosneft's resource base and production map and 3.1 Exploration and reserve replacement, pp. 68-73)				
	GRI G4 OG1	Volume of proved reserves and production	Key sustainability performance indicators		6	+
CATEGORY: ENVIRONMENTAL (UN GC PRINCIPLES 8 AND 9)						
Energy consumption	G4-DMA	Disclosures on management approach	Environment – Energy consumption and energy efficiency		81–82	+
	G4-EN3 UN GC Principles 7 and 8 IPIECA-E2 RUIE – 2.2	Energy consumption within the organization	Environment – Energy consumption and energy efficiency		81–82	+
		Group entities use various fuels, primarily natural gas and associated petroleum gas, as well as fuel oil (88% and 9% of total fuel consumption, respectively)				
	G4-EN6 UN GC Principles 8 and 9 IPIECA-E2	Reduction of energy consumption	Environment – Energy consumption and energy efficiency		81–82	+
		The implementation of the Energy Saving Program resulted in energy savings of 21.4 million GJ in 2016 (heat, electricity and fuel)				
	GRI G4 OG3 IPIECA-E3	Total amount of renewable energy generated by source		The indicator is disclosed partially. Information is not available due to insignificant volumes of renewable energy generation. The Company intends to start recording this type of energy when it begins using it more extensively		+
		At present, the amount of generated renewable energy represents an insignificant portion of total energy generation				
Water	G4-DMA	Disclosures on management approach	Environment – Environmental performance in 2016 – Water consumption and wastewater discharge		75	+
	G4-EN8 UN GC Principles 7 and 8 IPIECA-E6 RUIE – 2.3	Total water withdrawal by source	Key sustainability performance indicators Environment – Environmental performance in 2016 – Water consumption and wastewater discharge		7 76	+
		According to its data collection methodology, the Company publishes data on total water withdrawal, including rainwater, wastewater and bottom water				
	G4-EN9 UN GC Principle 8 IPIECA-E6	Water sources significantly affected by withdrawal of water				+
		The Company identified no significant impacts of water withdrawal on water sources. The volume of water withdrawn from surface and ground sources is within the allowable level				
	G4-EN10 UN GC Principle 8 IPIECA-E6 RUIE – 2.4	Percentage and total volume of water recycled and reused	Environment – Environmental performance in 2016 – Water consumption and wastewater discharge		75	+
		In 2016, the percentage of water recycled and reused was around 49.72% (1,679 million million cubic meters)				

ASPECT	INDICATOR	DEFINITION	REPORT SECTION	EXCLUDED INFORMATION	PAGE	EXTERNAL ASSURANCE
Ecosystem services, including biodiversity	G4-DMA	Disclosures on management approach	Environment – Environmental management system – Protected and environmentally sensitive areas		72	+
	G4-EN11 UN GC Principle 8 IPIECA-E5	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Environment – Environmental management system – Protected and environmentally sensitive areas		72	+
		The Company conducts exploration activities in environmentally sensitive and protected areas, including in the Yamalo-Nenets Autonomous Okrug, Krasnoyarsk Territory, Arkhangelsk Region and the Republic of Sakha, and in the Sea of Okhotsk, the Kara Sea and the Barents Sea. It also extracts, treats and transports oil near the Verkhnee Duobye wetlands, in the Yugansky state nature reserve in the Khanty-Mansi Autonomous Okrug, in various protected areas in the Samara region, including near the Sprygin Zhigulevsky state nature reserve, and the More-Yu wildlife sanctuary, the Pym-Va-Shor natural monument in the Nenets Autonomous Okrug, and in the wildlife sanctuaries and wetlands of Krasnodar Territory. In addition, the Company carries out oil and gas extraction, treatment and transportation operations in the areas with natural resources traditionally used by indigenous peoples of the North and sells petroleum products in the vicinity of various protected areas, including the Utrish state nature reserve, the Losiny Ostrov, Samarskaya Luka, Tunkinsky and Pribaikalsky national parks, the Baikal nature reserve, the Teberdinsky state nature reserve, the Kumysnaya Polyana nature park and the Vysokovsky Bor natural monument. The Company carries out operations, including in the vicinity of environmentally sensitive andprotected areas, in full compliance with requirements of environmental laws			
	G4-EN12 UN GC Principle 8 IPIECA-E5, HS4	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	Environment – Environmental management system – Protected and environmentally sensitive areas	The indicator is disclosed partially. Due to the scale of the Company's operations, it is impossible to indicate all affected species and the extent of the impacted areas	72	+
		The main impacts on biodiversity come from Rosneft's exploration, production, treatment, transportation and marketing activities and generally last for as long as the Company leases or operates production facilities. The Company does not exert any irreversible impact on biodiversity. The most common impacting factors are the pollution of areas and the construction and use of production facilities				
	G4-EN13 UN GC Principle 8 IPIECA-E5	Habitats protected or restored	Environment – Environmental performance in 2016 – Waste management and contaminated land remediation	The indicator is disclosed partially. Due to the scale of the Company's operations, it is impossible to indicate the location and status of all protected and restored habitats	78–79	+
		The final stage of land remediation is an independent assessment. Land remediation is evidenced by certificates of acceptance to be submitted to local government authorities				
	G4-EN14 UN GC Principle 8	Total number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk				+
		Areas affected by the Company's operations are home to 241 species from the IUCN Red List and the national conservation list: *Critically endangered (IUCN): 6 species* *Endangered (IUCN): 1 species* *Vulnerable (IUCN): 11 species* *Near threatened (IUCN): 22 species* *Least concern (IUCN): 24 species* *Threatened with extinction (Russia): 11 species* *Rare (Russia): 108 species* *Decreasing in number (Russia): 33 species* *Uncertain status (IUCN, Russia): 23 species* *Restored and restoring (Russia): 2 species* *Species with habitats in areas affected by the Company's operations include gray whale, cachalot, reindeer, grey heron, golden eagle, Eurasian otter, pond turtle, sturgeon and others. The Company analyzes its impact on the above species and tries to mitigate it*				
	GRI G4 OG4 IPIECA-E5, HS4	Number and percentage of significant operating sites in which biodiversity risk has been assessed and monitored	Environment – Environmental management system – Protected and environmentally sensitive areas		72	+
		In 2016, the percentage of significant operating sites in which biodiversity risk has been assessed was 6.7% (15 sites)				

ASPECT	INDICATOR	DEFINITION	REPORT SECTION	EXCLUDED INFORMATION	PAGE	EXTERNAL ASSURANCE
Air pollution	G4-DMA	Disclosures on management approach	Environment – Environmental performance in 2016 – Air pollution		72–73	+
	G4-EN15 UN GC Principles 7 and 8 IPIECA-E1 RUIE – 2.5	Direct greenhouse gas emissions (Scope 1)	Environment – Environmental performance in 2016 – Greenhouse gas emissions		74	+
	G4-EN16 UN GC Principles 7 and 8 IPIECA-E1 RUIE – 2.5	Energy indirect greenhouse gas emissions (Scope 2)	Environment – Environmental performance in 2016 – Greenhouse gas emissions		74	+
	G4-EN18 UN GC Principle 8 IPIECA-E1	Greenhouse gas emissions intensity	Environment – Environmental performance in 2016 – Greenhouse gas emissions		75	+
	G4-EN20 UN GC Principles 7 and 8 IPIECA-E7	Emissions of ozone-depleting substances				+
		The Company does not use any ozone-depleting substances on an industrial scale				
	G4-EN21 UN GC Principles 7 and 8 IPIECA-E7 RUIE – 2.6	NOX, SOX and other significant air emissions	Key sustainability performance indicators Environment – Environmental performance in 2016 – Air pollution		7 73	+
Effluents and waste	G4-DMA	Disclosures on management approach	Environment – Environmental performance in 2016 – Water consumption and wastewater discharge Environment – Environmental performance in 2016 – Waste management and contaminated land remediation		75 78–79	+
	G4-EN22 UN GC Principle 8 IPIECA-E9 RUIE – 2.7	Total water discharge by quality and destination	Key sustainability performance indicators Environment – Environmental performance in 2016 – Water consumption and wastewater discharge	The indicator is disclosed partially. Due to the scale of the Company's operations, it is impossible to present information by destination	7 77	+
		According to its data collection methodology, the Company publishes data on total effluents (those of its own and of third parties) discharged via a centralized wastewater disposal system of its own and of third parties. The Company also publishes data on domestic wastewater discharge				
	G4-EN23 UN GC Principle 8 IPIECA-E10 RUIE – 2.8	Total weight of waste by type and disposal method	Environment – Environmental performance in 2016 – Waste management and contaminated land remediation		78	+
	G4-EN24 UN GC Principle 8 IPIECA-E8 RUIE – 2.9	Total number and volume of significant spills	Key sustainability performance indicators Environment – Environmental performance in 2016 – Waste management and contaminated land remediation Occupational health and safety – Health and safety performance in 2016 – Pipeline reliability		7 79 56–57	+

ASPECT	INDICATOR	DEFINITION	REPORT SECTION	EXCLUDED INFORMATION	PAGE	EXTERNAL ASSURANCE
Effluents and waste	G4-EN25 UN GC Principle 8 IPIECA-E10	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally				+
		Oily sludge and drill cuttings are the main types of waste produced by the Company. Rosneft does not transport, import, export or treat waste deemed hazardous under the Basel Convention Annexes I, II, III, and VIII				
	G4-EN26 UN GC Principle 8 IPIECA-E5	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organization's discharges of water and runoff				+
		The Company's discharges in 2016 had no significant impact on water bodies				
	GRI G4 OG5 IPIECA-E10	Volume and disposal of formation or produced water	Environment – Environmental performance in 2016 – Water consumption and wastewater discharge		76	+
	GRI G4 OG6 IPIECA-E4	Flaring	Key sustainability performance indicators Environment – Environmental performance in 2016 – Use of associated petroleum gas		7 75	+
		In 2016, associated petroleum gas was flared only by upstream entities in Russia				
	GRI G4 OG7 IPIECA-E10	Amount of drilling waste (drill mud and cuttings) and strategies for treatment and disposal	Environment – Environmental performance in 2016 – Waste management and contaminated land remediation		78–79	+
		In 2016, the total amount of drill cuttings from the use of water-based and non-aqueous muds was 3,960,000 tonnes and 39,000 tonnes, respectively				
Compliance	G4-DMA RUIE – 3.4.1, 3.4.2	Disclosures on management approach	Environment – Environmental management system		62–72	+
	G4-EN29 UN GC Principle 8 RUIE – 2.10	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Key sustainability performance indicators Environment – Environmental management system		7 68	+
		Some Group entities faced administrative fines for non-compliance with environmental regulations. The amounts of individual fines are insignificant. There were no non-monetary sanctions in 2016				
Environmental investments	G4-DMA	Disclosures on management approach	Environment – Environmental management system		62–72	+
	G4-EN31 UN GC Principles 7, 8 and 9 IPIECA-E5 RUIE – 2.12	Total environmental protection expenditures and investments by type	Key sustainability performance indicators Environment – Environmental management system		7 68	+
CATEGORY: SOCIAL						
	RUIE – 3.1.9	Occupational health expenditures	Key sustainability performance indicators Occupational health and safety – Occupational health and safety management system		7 49–52	+

ASPECT	INDICATOR	DEFINITION	REPORT SECTION	EXCLUDED INFORMATION	PAGE	EXTERNAL ASSURANCE
Sub-category: Labor practices and decent work						
Employment	G4-DMA	Disclosures on management approach	Human resources – HR management system		83–85	+
	G4-LA1 UN GC Principle 6 RUIE – 3.1.2, 3.1.3	Total number and rates of new employee hires and employee turnover by age group, gender and region	Key sustainability performance indicators Human resources – HR management system – Staff structure	The indicator is disclosed partially. Information on new employee hires and turnover by gender and age is currently not available. The Company intends to collect such information after all Group entities implement a single automated HR administration system within the scope of centralized business planning (not earlier than 2020)	9 85	+
	G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	Human resources – HR performance in 2016 – Employee compensation Human resources – HR performance in 2016 – Quality living conditions Human resources – HR performance in 2016 – Education support for employees and members of their families Human resources – HR performance in 2016 – Collective bargaining agreement		86–87 100 98 102	+
Occupational health and safety[72]	G4-DMA IPIECA-HS1, HS2, HS3	Disclosures on management approach	Occupational health and safety – Occupational health and safety management system		49–52	+
Occupational health and safety	G4-LA6 IPIECA-HS3 RUIE – 3.1.5, 3.1.6, 3.1.7, 3.1.8	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and gender	Key sustainability performance indicators Occupational health and safety – Health and safety performance in 2016 – Occupational health and safety	The indicator is disclosed partially. The information required to calculate the absenteeism rate is currently not available, as no such records are kept by the Company	7 53	+
	G4-LA7	Workers with high incidence or high risk of diseases related to their occupation *The Company performed an analysis of historical data on injuries and occupational diseases to identify jobs with the highest risk rates. Jobs with the highest risk of injury include drilling rig and other machine operators, filling station attendants, and oil and gas field workers; jobs with the highest risk of occupational diseases include machine operators, bulldozer operators, and drivers of special-purpose vehicles. Rosneft makes every effort to mitigate negative impacts on these jobs*				+
	G4-LA8 IPIECA-HS1, HS2, HS3, SE16	Health and safety topics covered in formal agreements with trade unions	Occupational health and safety – Occupational health and safety management system Human resources – HR performance in 2016 – Partnership with trade union organizations		49–52 103	+
	IPIECA-HS2, HS3	Programs and processes for identifying and addressing significant workforce health issues	Human resources – HR performance in 2016 – Development of the employee health system		100-101	+
Occupational health and safety	G4-DMA IPIECA-HS1	Disclosures on management approach	Occupational health and safety – Occupational health and safety management system		49–52	+

72. The aspect boundaries comprise the Rosneft Group and the contractors working at the facilities of the Group's production entities

ASPECT	INDICATOR	DEFINITION	REPORT SECTION	EXCLUDED INFORMATION	PAGE	EXTERNAL ASSURANCE
Training and education	G4-DMA RUIE – 3.1.11	Disclosures on management approach	Human resources – HR management system		83–85	+
	G4-LA9 UN GC Principle 6 IPIECA-SE16 RUIE – 3.1.10	Average hours of training per year per employee by gender, and by employee category	Occupational health and safety – Occupational health and safety management system Human resources – HR performance in 2016 – Employee training and development	The Report presents data on trainings by the number of trained employees, type of training and employee categories. Data on gender of employees is not collected	50 89–91	+
	G4-LA11 UN GC Principle 6 IPIECA-SE16	Percentage of employees receiving regular performance and career reviews	Human resources – HR performance in 2016	The indicator is disclosed partially. The Report presents data on the total number of employees who have been subject to reviews. Currently, the Company does not collect data on reviews by category and gender	91–93	+
		Company-wide, reviews were conducted for more than 21,000 employees in 2016				
Labor practices grievance mechanisms	G4-DMA	Disclosures on management approach	Sustainability management – Compliance framework Sustainability management – Ethical management framework		30–32	+
	G4-LA16	Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms	Sustainability management – Compliance framework Sustainability management – Ethical management framework		30–33	+
		All grievances received in 2016 have been considered and analyzed. The ethics hotline received a total of 81 reports in 2016				
Sub-category: Human rights[73]						
Freedom of association and collective bargaining	G4-DMA IPIECA-SE8, SE9 IPIECA-SE15	Disclosures on management approach	Human resources – HR performance in 2016 – Collective bargaining agreement Human resources – HR performance in 2016 – Partnership with trade union organizations		102–103	+
	G4-HR4 UN GC Principle 3	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights				+
		The Company is committed to comply with the requirements of legislation on freedom of association and collective bargaining. The Company has no business units or suppliers that may violate these rules				
	IPIECA – SE18 RUIE – 3.2.1	Labor disputes				
		The Company is committed to comply with the requirements of labor legislation. The Company seeks to resolve all labor disputes by means of negotiation				
Rights of indigenous peoples	G4-DMA IPIECA-SE15	Disclosures on management approach	Society – Social performance in 2016 – Support for the indigenous peoples of the North		110–112	+
	G4-HR8 UN GC Principle 1 RUIE – 3.2.3	Total number of incidents of violations involving rights of indigenous peoples and actions taken				+
		The Company is committed to comply with the requirements of legislation prohibiting any forms of human rights violation. No violations involving the rights of indigenous peoples were reported in 2016				
	GRI G4 OG9	Operations where indigenous communities are present or affected by activities and where specific engagement strategies are in place	Society – Social performance in 2016 – Support for the indigenous peoples of the North		110–112	+
		In some regions, the Company carries out oil and gas production operations in the areas where indigenous communities are present. In all such regions, the Company has programs to engage with, and provide support to, such communities				

73. UN GC Principles 2, 4 and 5, RUIE – 3.2.2: The Company does not conduct any activities involving the use of child labor or forced labor. In 2015, the Company recorded no incidents of human rights violations and/or discrimination

ASPECT	INDICATOR	DEFINITION	REPORT SECTION	EXCLUDED INFORMATION	PAGE	EXTERNAL ASSURANCE
Human rights grievance mechanisms	G4-DMA RUIE – 3.1.12	Disclosures on management approach	Sustainability management – Compliance framework Sustainability management – Ethical management framework		30–33	+
	G4-HR12 UN GC Principle 1 RUIE – 3.2.2	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms				+
		The procedures and mechanisms in place at the Company revealed no grievances related to human rights in 2016				
Sub-category: Society						
Local communities	G4-DMA RUIE – 3.3.1, 3.3.3	Disclosures on management approach	Society – Social impact management system Society – Social performance in 2016 Stakeholder engagement		105–114 39–43	+
	G4-SO1 UN GC Principle 1 IPIECA-SE1, SE2, SE3, SE4, SE5,	Percentage of operations with implemented local community engagement, impact assessments, and development programs	Society		106–114	+
		The Company implements procedures for stakeholder engagement and community impact assessment and management in key regions of operation, including when developing new projects. Such approaches affect the absolute majority of the Company's operations				
	RUIE – 3.3.2	Engagement with government authorities when handling publicly important tasks	Society – Social impact management system Society – Social performance in 2016 – Regional partnerships		105–107	+
		Social investments	Key sustainability performance indicators Society – Social impact management system Society – Social performance in 2016		9 105–114	+
	G4-SO2 UN GC Principle 1	Operations with significant actual and potential negative impacts on local communities				+
		The relocation of the Company's employees and contractors in connection with the development of new projects may have an adverse impact on local communities. Other adverse factors may include environmental impacts and threats to the safety of the facilities. *The Company takes action to avoid adverse impacts of employee relocation on local communities and implements measures to mitigate adverse environmental impacts and enhance safety management performance*				
	GRI G4 OG10 RUIE – 3.2.3	Number and description of significant disputes with local communities and indigenous peoples				+
		There were no significant disputes with local communities and indigenous peoples in 2016				
Anti-corruption	G4-DMA	Disclosures on management approach	Sustainability management – Compliance framework		31–32	+
	G4-SO3 UN GC Principle 10 IPIECA-SE11, SE12	Total number and percentage of operations assessed for risks related to corruption, and significant risks identified		The indicator is not disclosed. The data on the exact number of Group entities analyzed for corruption-related risks is confidential		+
		Countering corruption is part of the Code of Business and Corporate Ethics adopted by Rosneft. The Company has developed and adopted the Policy for Countering Corruption and the Policy for Countering Corporate Fraud. Relevant implementation activities took place in 2016 as part of the Comprehensive Fraud and Corruption Prevention Program				
	G4-SO4 UN GC Principle 10 IPIECA-SE11	Communication and training on anti-corruption policies and procedures	Sustainability management – Compliance framework Sustainability management – Prevention of fraud and corruption		31–33	+
	G4-SO5 UN GC Principle 10 IPIECA-SE11, SE14	Confirmed incidents of corruption and actions taken	Sustainability management – Compliance framework Sustainability management – Prevention of fraud and corruption		32–33	+
		Anti-corruption issues are also handled by the Company's Security Function and the Internal Audit and Control Function				

ASPECT	INDICATOR	DEFINITION	REPORT SECTION	EXCLUDED INFORMATION	PAGE	EXTERNAL ASSURANCE
Public policy	G4-DMA	Disclosures on management approach	Stakeholder engagement Society – Social performance in 2016 – Regional partnerships		39–43 106–108	+
	G4-SO6 UN GC Principle 10 IPIECA-SE11, SE14	Total value of political contributions by country and recipient/beneficiary *The Company does not provide finance for political purposes*				+
	RUIE – 3.3.1	Position on the public policy, participation in public policy development and lobbying	Environment – Environmental management system – Cooperation with regulators Human resources – HR performance in 2016 – Employee training and development Occupational health and safety – Occupational health and safety management system		69 89–93 49–52	
		The following decisions and actions were taken by the Company in 2016 pursuant to public policy: • *Rosneft updated its long-term development program by detailing the measures aimed at achieving long-term goals, and updating measures developed in accordance with the directives of the Russian Government (such as No. 4955p-P13 dated 17 July 2014, No. 7558p-P13 dated 12 November 2014, No. 1346p-P13 dated 5 March 2015, No. 2303p-P13 dated 16 April 2015, No. 7389p-P13 dated 31 October 2014, No. 1472p-P13 dated 3 April 2016, No. 4531p-P13 dated 28 June 2016, No. 4750p-P13 dated 4 July 2016), including a separate set of measures to facilitate the development of the Far East, and to improve the quality of planning* • *The Company continued work on the construction project of Eastern Petrochemical Company – the largest oil refining and petrochemical facility in the Far East Federal District, pursuant to Regulation No. 2602-r of the Russian Government dated 17 December 2015 and with the support of the Russian President expressed in Instruction No. Pr-2579 dated 29 December 2016* • *In 2016, the Board of Directors of Rosneft made a number of decisions pursuant to the instructions of the Russian President and the Russian Government with respect to the following issues:* – *Develop (update) plans to reduce operating costs and promote import substitution* – *Make export settlements in roubles* – *Implement and account for investment projects* – *Set standards for and carry out procurement* – *Sell non-core assets* – *Develop infrastructure in the Far East on a priority basis* – *Implement professional standards in the Company's operations* • *In 2016, the Company obtained approvals for the internal regulations covering the key processes of the Company, and implemented some of them, following the instructions of the Russian President and the Russian Government (for the full list of adopted documents, see the 2016 Annual Report, 4.4: Rosneft's executive bodies, p. 162)* • *Pursuant to the instruction of the Russian President, the consortium of Rosneft, Rosneftegaz and Gazprombank is building an industrial and shipbuilding cluster in the Russian Far East based on the Far Eastern Shipbuilding and Ship Repair Center, with Zvezda shipbuilding complex in Bolshoi Kamen at its core* • *Rosneft completed the acquisition of the government stake in Bashneft, pursuant to Regulation of the Russian Government dated 10 October 2016* • *Rosneft fully met the demand for petroleum products from the military units of the Russian Ministry of Defense deployed in the Central and Eastern military districts, as well as from the Ministry of the Interior, the Ministry of Emergency Situations and the Russian Investigative Committee. The Company expanded its cooperation with federal clients and, in 2016, became the only supplier of motor fuels and aviation fuel for the Ministry of Emergency Situations and the only supplier of motor fuels for the Ministry of the Interior, based on a decree of the Russian Government* • *The Company met the target share of purchases from small and medium-sized businesses, as required by Decree No. 1352 of the Russian Government dated 11 December 2014. Contracts that Rosneft concluded with small and medium-sized businesses totaled RUB 108.9 billion* *Also see the 2016 Annual Report (Appendix 4: Information on compliance with instructions given by the President of the Russian Federation and the Government of the Russian Federation, pp. 302-308)*				
Emergency preparedness and response	G4-DMA IPIECA-HS1	Disclosures on management approach	Emergency prevention and response readiness		59–61	+
Asset integrity and process safety	G4-DMA	Disclosures on management approach	Occupational health and safety – Health and safety performance in 2016 – Industrial safety		54	+
	GRI G4 OG13 IPIECA-HS1, HS5	Process safety	Occupational health and safety Emergency prevention and response readiness	The indicator is disclosed partially. The Company does not register loss of containment events according to the methodology implied by this indicator. Currently, such events are recorded and classified in accordance with the requirements of Russian legislation	49–61	+
		Safety is a number one priority for the Company. To prevent accidents, the Company regularly conducts OHS reviews at Group entities, and it has also built an OHS personnel training system and practices emergency skills during training exercises and on-site drills. *There were eight accidents at the Company's facilities in 2016, none with environmental consequences*				

ANNEX 3.

PROGRESS AGAINST THE 2016 ENVIRONMENTAL SUSTAINABILITY TARGETS

LAND PROTECTION AND REMEDIATION, AND WASTE MANAGEMENT TARGETS

INDICATOR	UOM	2016 (PLAN)	2016 (ACTUAL)
Number of oil and petroleum product spills (per million tonnes of oil produced)	spills per million tonnes	38.6	34.3
Third-party (legacy) contaminated lands at the end of the period (the Upstream segment)	thousand hectares	2.00	1.99
Third-party (legacy) accumulated oily waste at the end of the period (the Upstream segment)	million tonnes	8.9	8.98
Third-party (legacy) accumulated oily waste at the end of the period (the Oil Refining and Petrochemicals segment)	million tonnes	0.177	0.177
Third-party (legacy) accumulated drilling waste at the end of the period (the Upstream segment)	million tonnes	0.08	0.09
Reduction in contaminated land remediation obligations (the Upstream segment)	accumulation factor	0.995	0.75
Reduction in drilling waste management obligations (the Upstream segment)	accumulation factor	0.98	0.93
No accumulation of drilling waste management obligations (the Gas segment)	accumulation factor	1.00	0.48
Reduction in oily waste management obligations (the Upstream segment)	accumulation factor	0.99	0.89
Reduction in oily waste management obligations (the Oil Refining and Petrochemicals segment)	accumulation factor	1.08	0.99
Reduction in oily waste management obligations (the Distribution and Sales segment)	accumulation factor	1.15	0.96

AIR PROTECTION TARGETS, TONNES PER THOUSAND TCE

INDICATOR	2016 (PLAN)	2016 (ACTUAL)
Gross emissions (the Upstream segment)	6.07	3.82
Gross emissions (the Gas segment)	2.45	0.79
Gross emissions (the Oil Refining and Petrochemicals segment)	1.54	1.46
Gross emissions (the Distribution and Sales segment)	0.32	0.26

WATER USE TARGETS, %

НАИМЕНОВАНИЕ ИНДИКАТОРА	2016 (PLAN)	2016 (ACTUAL)
Reused water as % of total water used for production in the Oil Refining and Petrochemicals segment	93.0	94.4
Contaminated industrial wastewater discharges as % of total wastewater discharges through own centralized wastewater disposal systems (the Oil Refining and Petrochemicals segment)	49.0	36.9
Contaminated industrial wastewater discharges as % of total wastewater discharges through own centralized wastewater disposal systems (the Distribution and Sales segment)	75.0	55.1

ANNEX 4.

KEY SUSTAINABILITY PERFORMANCE INDICATORS OF BASHNEFT

INDICATOR	2014	2015	9M 2016
OPERATIONAL AND ECONOMIC INDICATORS			
Proved oil reserves (under the SEC classification), million tonnes	304	325	n/a
Oil production, million tonnes	18	20	16
Oil refining, million tonnes	22	19	14
Production of gasoline, thousand tonnes	5,005	4,953	3,197
Production of diesel fuel, thousand tonnes	7,489	7,426	5,331
Assets at the end of the year, RUB billion	524	520	549
Net sales, RUB billion	637	611	435
Equity, RUB billion	204	245	247
Debt, RUB billion	168	136	109
DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED, RUB BILLION			
Generated direct economic value			
Revenues	640	615	432
Distributed economic value			
Operating costs	203	201	139
Employee wages and benefits	30	38	32
Payments to providers of capital	48	37	39
Payments to governments	296	232	148
Community investments	2	5	3
Economic value retained	61	102	71
KEY ENVIRONMENTAL PERFORMANCE INDICATORS			
Greenhouse gas emissions (Scopes 1 and 2), thousand tonnes of CO2 equivalents[74]	141	186	n/a
Total air pollutant emissions, thousand tonnes	198	222	172
Water withdrawals from all sources, million cubic meters	233	243	176
Use of water from all sources, million cubic meters	184	192	137
Industrial wastewater discharges, thousand cubic meters, including:	27,188	29,074	23,115
into surface waterways, thousand cubic meters	27,188	29,074	23,115
into formations, thousand cubic meters	0	0	0
into soils, thousand cubic meters	0	0	0
Domestic wastewater discharges, thousand cubic meters	1,545	1,483	1,154
Wastewater discharges into third-party networks for reuse, thousand cubic meters	0	0	0
Reused and recycled water, million cubic meters	755	760	562
Contaminated lands at the end of the year, hectares	0	2	9
Land remediation during the year, hectares	2,554	2,330	1,265
including contaminated lands, hectares	5	3	5
Waste stored at the beginning of the year, thousand tonnes	326	339	353
Waste produced during the year, thousand tonnes	208	212	192
New waste inventories (third-party waste and waste taken over as a result of a reorganization of another legal entity), thousand tonnes	0	0	1
Waste used, thousand tonnes	99	79	113
Waste treated and recycled, thousand tonnes	18	49	27
Waste buried, thousand tonnes	55	60	42
Waste transferred to third parties, thousand tonnes	23	32	6
Waste stored at the end of the year, thousand tonnes	339	353	384
Environmental capital expenditures, RUB million	4,089	5,049	8,046
Operating environmental expenditures, RUB million	2,314	2,392	1,498
Environmental fines imposed, RUB million	1	2	2
APG production, million cubic meters	704	792	698
APG utilization, million cubic meters	521	586	488
APG utilization rate, %	74	74	70

74. The data are for the upstream business only

INDICATOR	2014	2015	9M 2016
KEY OCCUPATIONAL HEALTH AND SAFETY PERFORMANCE INDICATORS[75]			
Total occupational injuries among employees, persons	10	25	31
Total fatal injuries among employees, persons	0	2	8
Incidence rate of non-fatal injuries[76] (per million hours worked)	0.23	0.45	0.55
Incidence rate of fatal injuries (per million hours worked)[76]	0	0.04	0.14
Total man-hours worked by employees, thousand man-hours	43,355	55,481	56,347
Total number of accidents	4	2	2
Length of temporary disability due to occupational injuries, days	534	1,290	1,435
Length of disability due to occupational diseases, days	31	0	0
New incidents of occupational diseases	1	1	0
Number of fire incidents	7	18	12
Number of gas, oil and water inflow incidents	1	2	0
Expenditures on emergency prevention, fire and radiation safety, RUB million	167	531	765
Occupational health and safety expenditures, RUB million	4,886	5,408	8,238
Total pipeline ruptures (in-field oil, gas and water pipelines)	1,387	1,380	686
Total pipeline ruptures resulting in oil spills	673	570	351
Rate of pipeline ruptures per kilometer	0.068	0.067	0.045
Crude oil and petroleum product spills due to pipeline ruptures, tonnes	154.2	168.3	62.4
Total length of in-field pipelines in operation at the end of the reporting period, kilometers	20,210	20,543	20,698
KEY ENERGY CONSUMPTION INDICATORS			
Total consumption of fossil fuels (non-renewable) used to generate energy, million GJ	97	102	104[77]
Purchased electricity, thousand MWh	5,816	6,153	6,301[77]
Purchased heat, thousand Gcal	5,123	5,153	4,852[77]
KEY HR PERFORMANCE INDICATORS			
Headcount at the end of the year, thousand	35	38	39
Average headcount, thousand	33	36	37
Employee turnover, %	4.3%	3.6%	2.9%
Average monthly salary (RUB / employee)	71,832	58,837	75,676
Gross payroll (incl. benefits and one-time bonuses), RUB million	28,721	25,379	25,272
Social payments to employees, RUB million	440	510	461
KEY SOCIAL PERFORMANCE INDICATORS			
Tax payments and customs duties, RUB million	295,462	231,584	147,740
including tax payments to the federal budget and customs duties, RUB million	243,776	171,392	100,984
including tax payments to regional budgets, RUB million	45,509	53,160	40,710
including payments to extra-budgetary funds, RUB million	6,178	7,032	6,047
Spending on social programs, RUB million, including:	1,840	4,732	3,194
charity and regional agreements, RUB million	1,422	4,039	2,703
other social spending (incl. voluntary health insurance and accident insurance, financial assistance, paid health treatment and recreation for employees, sports and fitness events, etc.)	417	694	491

75. Shkapovskoye and Tuimazinskoye Gas Processing Plants, Ufaorgsintez and Bashneft-Stroy were not members of the Bashneft group in 2014, and therefore incomplete data is available for these entities for 2014
76. Subcontractors excluded
77. The 2016 energy consumption figures include Q4

ANNEX 5.

LIST OF ABBREVIATIONS

The terms Rosneft Oil Company, Rosneft, the Company used in this Report mean either Rosneft Oil Company PJSC or Rosneft Oil Company PJSC with its subsidiaries and affiliates depending on a particular context. The 2016 Sustainability Report provides information as of December 31, 2016 unless stated otherwise. GRI Guidelines – Sustainability Reporting Guidelines (Version G4) developed by the international organization Global Reporting Initiative.

APG	associated petroleum gas
API	American Petroleum Institute
CJSC	Closed Joint-Stock Company
CSR	corporate social responsibility
GRI	Global Reporting Initiative
GTL	Gas to liquids, a process to convert natural gas into liquid hydrocarbon products
HR	human resources
HSE	Health, Safety, and Environment
IFRS	International Financial Reporting Standards
IPIECA	International Petroleum Industry
ISO	International Organization for Standardization
KPI	key performance indicator
LLC	Limited Liability Company
LNG	liquefied natural gas
MGIMO	Moscow State Institute of International Relations
NGO	non-governmental organization
OFS	oilfield services
OHS	Occupational Health and Safety
PJSC	Public Joint-Stock Company
R&D	research and development
RSPP	Russian Union of Industrialists and Entrepreneurs
SEC	U.S. Securities and Exchange Commission
UN	United Nations
UNEP	UN Environmental Program
UNEPCOM	Russian National Committee for UNEP
VAT	value-added tax
VHI	voluntary health insurance
WWF	World Wildlife Fund
bcm	billion cubic meters
GJ	gigajoule
ha	hectare
mboe	million barrels of oil equivalent
mmt	million metric tons
mmtoe	million metric tons of oil equivalent
tce	tonnes of coal equivalent

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