

ADDRESS

**on the first item on the agenda of the Annual General
Meeting of the Shareholders of Rosneft Oil Company PJSC**

“Approval of the Annual Report of the JSC”

(June 21, 2018, Krasnoyarsk)

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Introductory Commentaries

Dear shareholders, guests of the meeting, and partners of our Company, we are glad to welcome you today here in Krasnoyarsk at the Annual General Meeting of Shareholders of Rosneft Company!

A great number of our esteemed shareholders have gathered in this hall today, representatives of our controlling shareholder – the government of the Russian Federation, representatives of federal and regional public authorities, as well as our strategic partners and shareholders, including BP Plc, Qatar Investment Authority and Glencore.

The choice of Krasnoyarsk as a place to hold this meeting is not random. 16 of the Company's subsidiaries are registered in Krasnoyarsk Territory, and here are being implemented the large-scale field development projects, which define the image of Rosneft today and tomorrow. Among them are such flagship projects – not only for Russian, but also for global oil industry, I should note – as the **Vankor, Suzunskoye, Tagulskoye, Yurubcheno-Tokhomskoye, Kuyumbinskoye and Lodochnoye fields**. It is expected, that **as of this year they will provide about 10% of the Company's total output** and will undoubtedly become the foundation for growth in the next years.

Krasnoyarsk Territory, located in the geographic “heart of Russia”, has become a key refining center for the Company in recent years. Rosneft is committed to the task of ensuring stable supplies for the domestic market and, in spite of the Achinsk Refinery’s remoteness from export markets, has already invested over 70 bln rubles in upgrading its capacity. Today the refinery with a capacity of 7.5 mmtoe a year is the anchor supplier of oil products in the region that ensures economic growth in Krasnoyarsk Territory and in the Eastern Siberia as a whole.

It is important to assess fully and realistically the outer market environment and the domestic regulatory dynamics, which the Company takes into consideration in its operations, in order to assess objectively the results, demonstrated by Rosneft, and consider the prospective tasks, which are best matched to the existing challenges within the industry and the regulatory environment. I’m happy to provide the esteemed shareholders with such an assessment of the global environment, the Company’s results and prospective tasks based on the 2017 results.

Section 1. The Context of Global Energy Industry

We presume the central role of hydrocarbon-based energy and are sure that oil and gas will remain the core of global economy in the foreseeable future.

Global economic growth and the search for the ways to accelerate increase of the human well-being, especially in developing economies, defines the rise in demand for oil industry products for many decades to come, and this rise would concern both transportation and deep-processed products of petrochemistry. Even in the hardest-to-achieve scenarios demand for hydrocarbons in 2040 is higher than it is today (our colleague from Wood Mackenzie already said about it); although just five years back few believed that demand for hydrocarbons in 2017 would reach almost 100 mln bpd, a year-on-year increase of 1.3%. Rosneft believed in the power and fundamental dynamics of demand as no other company in the industry did, and we reached the point of demand growth fully prepared, with a line of production projects launched in 2017 and ready to be launched or within a few months from the start of production. The total output plateau for Rosneft's new projects that have extremely competitive costs exceeds 1.7 mln bpd.

Today, the market is quite united in expectations of the

structural oil deficit in the next 10 years, as the growing demand comes along with a fall in production at mature fields of industry majors and the effect of reduced capital investment in the past five years. Oil shortage – the excess of demand above supply – is estimated at the level of 700-750 mmtoc per annum by 2025, and For Rosneft, which has a high-quality resource base, such a situation creates unique opportunity to increase global market share and create additional value to shareholders. We see our rival countries – leading oil producers, the USA and Saudi Arabia above all – taking measures to decrease tax burden for the industry and increase their market share on global markets. That is the reason why today we are holding an active dialogue with the Russian authorities to determine incentive measures for the industry development and to increase investment activity of oil companies, since every ruble invested provides a multiplicative effect of 5 to 6 rubles for the economies of the regions, where the projects are implemented, which is key to stimulating the economic growth.

The past several years were generally challenging for the oil industry, which effectively found itself in the situation of “the perfect storm”. Price volatility; profound and repeated reassessment of their role and strategy of market behavior on the part of major players, above all, Saudi Arabia; growing

influence of shale oil output; as well as regulatory and geopolitical risks in a number of leading producing countries – Venezuela, Iran, Libya – were the main drivers for such volatility.

These factors were supplemented, at least in public view, with the advancement of electric vehicles and general development of renewable energy, which also became an element of additional pressure on the industry; although, as I have repeatedly pointed out, the real risks from, let's say, electric vehicles for the hydrocarbon energy industry are negligible. The massive launch of a low-cost Tesla Model 3 electric vehicle, promised by Tesla Company, is yet to happen. As a result, investors' enthusiasm towards the Company's prospects has become more reserved, and its market capitalization for the past year remained stable (a decrease of 3.2% since June 21, 2017 – the previous Rosneft AGM – to June 20, 2018), while traditional car-makers showed significant capitalization increase: 30% for Toyota, 18% for Volkswagen, 16% for General Motors. Tesla doesn't pay dividends to shareholders and steadily increases its debt and losses. I think that the difficulty of organizing a large-scale industrial output instead of producing experimental models has become obvious for the industry. On top of that, the issue is not only and not so

much the car manufacturing. They need to develop an entire interconnected ecosystem – specialized charging stations, battery manufacturing, a boost of metal mining is required for battery manufacturing. That’s a vast investment that the market has yet to comprehend, in my opinion. Another important factor in the efficiency and environmental friendliness of the use of electric vehicles is the fuel used for power generation. If gas is used for generation, then there is a gain in comparison with cars, if coal is used — practically no. In addition, a number of countries are heavily subsidizing electric cars, reducing their budget revenues from excise and other items, which also distorts comparability with cars.

Nevertheless, 2017 was in many ways a turning point where, due to fundamental factors, the global oil industry overcame the worst period of instability, so that we could even see some progress towards price stabilization. At the same time, sustainable recovery of the industry and its further development imply a rejection of the unilateral sanctions policy, investment limitations, and trade and tariff decisions. Unfortunately, in 2017 we saw the aggravation of those trends, and 2018 continues to bring disappointing news concerning transition of such unilateral policy into potential full-scale trade warfare, which, of course, is contrary to goals and objectives of

sustainable industry development.

Decline of production and external limitations applied towards the two key oil producers – Iran and Venezuela – contributed to shifting to the new price levels. It is the removal of significant amounts of oil of these countries from the global market – in Venezuela alone the production decline exceeded 13% year-on-year in 2017 – which resulted in surging prices and a decrease in commodity stocks. Considering these factors, one can talk about actual market stabilization only with caution.

Commenting on the dynamics of oil supply in 2017, I would also like to add that in the previous year we witnessed the reality of restrictions for further increase in oil production in US shale projects. Even now there is a shortage of pipeline infrastructure, service organizations, an increase of costs, lack of workers, as well as technological difficulties associated with the growth of water cut and depletion of productive reservoirs.

In our opinion, despite external challenges and residual price volatility, fundamental factors will be the ones to dominate, such as the growth of the global demand; imminent normalization of regulatory rhetoric, a significant part of which contravenes interests of the global economy; objective restrictions of competing producers; and unique quality of Rosneft's resource base. **We have been growing, we are**

growing, and we will be growing, and fact-based analysis of production dynamics clearly proves this. The current situation in the global industry provides one of the best opportunities for growth and improved performance of Rosneft.

Section 2. Core Results of 2017

Today Rosneft operates in almost all regions of the Russian Federation and is present in 26 countries around the world. The Company's share in the world oil output amounts to 6%. In 2017, Rosneft maintained its strong leadership in international oil and gas industry.

Slide "Record Production Results"

Production results in many areas were the best among major oil companies in the previous year.

In 2017, we **increased the volume of proven reserves by 6%** up to almost 40 bboe under SEC classification, once again being ahead of all closest rivals in terms of reserves replacement, which reached 184%. An unprecedented **volume of seismic surveys was performed** exceeding the level of 2016 by over 30%. Onshore in the Russian Federation, the **record historic success rate of exploration drilling was achieved – 86%. This is a truly unique success rate for the industry.**

In 2017, volume of production drilling increased by 30% and reached the new record value of 12 mln m.

The use of advanced technologies and optimization of field development solutions contributed to a significant growth of production of hard-to-recover reserves, which reached 16.3 mmtoe in 2017 and more than doubled the level of 2014.

New wells provided additional production of over 19 mmtoe; the share of horizontal wells grew from 32% in 2016 to 36% in 2017. In 2017, we **increased commissioning of horizontal wells with multistage hydraulic fracturing** by 67%, and those wells demonstrate high efficiency during development of hard-to-recover reserves.

As a result of works performed in 2017, the Company achieved a new record in hydrocarbon production – 282 mmtoe, including 225 mmtoe of liquid hydrocarbons.

At the same time, the specific operating costs of Rosneft for hydrocarbon production averaged to \$3.2 per boe per annum. This is the best value among the leading Russian and global oil and gas companies. Due to high efficiency of capital investments and implementation of state-of-the-art technologies, our level of specific capital expenses on exploration and production of hydrocarbons is the best in the world among public companies and equals to only \$7.1 per boe. Dynamics of

drilling costs is quite indicative: in 2017, **well costs under comparable conditions** decreased by **3%** compared to 2016, which in many respects contributed to growth of the Company's performance indicators.

In 2017, by gradually implementing the made strategic decisions and applying state-of-the-art technological approaches, we performed a monumental task at our anchor assets, on the fields of Yuganskneftegaz, resulting in **gradual improvements in the work of the enterprise**. For instance, **Yuganskneftegaz** produced the 400 millionth ton of oil at the Priobskoye field, set several Russian records of daily (25,904 m) and monthly (627,371 m) progress. Last year the oil production by this subsidiary grew by 4.5% to over 66 mmtoe. The Director of Yuganskneftegaz is here in the hall, and I want to thank him on behalf of the management for this impressive result. Now the average daily production of the enterprise has consistently reached the level of over 190,000 toe, a 30-years maximum. Thus, **we have already achieved the annual production volume of 69-70 mmtoe at Yuganskneftegaz two years ahead of schedule**. It became possible due to using advanced drilling technologies and methods of reservoir recovery rate enhancement, as well as large-scale exploration of low-permeable reservoirs of the Tyumen suite. For instance, over

200 new horizontal wells drilled using MSHF were commissioned in 2017 at Yuganskneftegaz sites, the amount of new horizontal well with multi-stage hydrofracturing in 2017 totaled over 200, while their share in the total number of horizontal wells reached 85%.

Slide “Key Projects Implementation Progress”

Rosneft has a top-class portfolio of production projects, which will secure significant new production levels already in the next years. The development of greenfield oil deposits during 2017 and the current year is performed on schedule. Major new projects, such as Suzunskoye and East Messoyakha fields, produced over 7.3 mmtoe last year.

The development of the Suzunskoye field proves the unique competitive advantage of Rosneft - our ability to profoundly explore new oil provinces, creating regional production hubs, the development of which is economically efficient due to the general usage of infrastructure, deep understanding of geology, scaling of project management competences and other factors. **Rosneft is a pioneer in implementing such a strategy in Russian modern oil industry.** High efficiency of the Suzunskoye field exploration proves that it was right to choose the Vankor project as a core one, with a new production cluster being developed around

ahead of schedule and at reduced costs. Last year the construction, installation, and pre-commissioning operations at the infrastructure's main facilities were continued for the first and second oil treatment start-up complexes, with a design capacity of 5.2 mmt per annum.

In 2017, the output on the Suzunskoye field reached 4.1 mmtoe, which is 400,000 toe lower than the planned level owing to liabilities the Company took under the OPEC+ agreement.

The development project for the East Messoyakha and West Messoyakha license areas is being implemented by Rosneft and Gazprom Neft together. The 3P reserves are evaluated to exceed 1.5 bboe (223 mmtoe). We commissioned the most northern onshore field of Russia in September 2016, and in 2017 we finished the construction of the main infrastructure facilities. In 2017, 3.2 mmtoe were produced in the project, while the production plateau is seen exceeding 5 mmtoe per annum and expected to be reached after 2018.

Also, Rosneft finished forming and is actively developing a new oil producing Erginsky cluster in Khanty-Mansi Autonomous Area. In 2017, the Kondinskoye field was commissioned.

The Kondinskoye field development includes completion of a gas turbine power plant and the field support base (Phase 2

construction). As of today, the Kondinskoye field produces over 25,000 bpd.

Comprehensive pilot operations of an oil treatment facility commenced at the Yurubcheno-Tokhoms koye field, while its current output exceeds 40,000 bpd.

As of 2018, we keep preparing actively to launch a range of major projects with the total plateau production potential of 20 mmtoe. Those are the Srednebotuobinskoye (phase two), Tagulskoye, Russkoye and Kuyumbinskoye (phase one) fields.

On the **Srednebotuobinskoye field** being developed together with our strategic partner and shareholder BP, 1.2 mmtoe of oil and condensate were produced in 2017, as well as five multilateral wells were completed, including those drilled using the Fishbones Stimulation Technology, with a total of 18,000 m drilled. As a result, we obtained confirmations on the technical feasibility of drilling multilateral wells in the Srednebotuobinskoye field conditions to increase well productivity and optimize development.

The **Tagulskoye field** is a part of the Vankor cluster and is being developed in synergy with the latter. Its commissioning to full-scale development in 2018 started in 2017.

Full-scale commissioning of the **Russkoye field**, located

in the Yamal-Nenets Autonomous Area within the Arctic Circle, is also scheduled for 2018. 83 wells were drilled in 2017, including three using the Fishbones Stimulation Technology. Construction and installation operations covering key production, auxiliary, and other field facilities are underway. An APG-fired (associated petroleum gas) power plant has been commissioned.

The Kuyumbinskoye field development, located in the Evenki District of the Krasnoyarsk Territory, includes current construction operations at the field and the launch of the first start-up complex, an allocated area with the most explored reserves. Subsequent stages envisage bringing into development the remaining deposits within the Kuyumbinsky license area.

In total, the Company's greenfield projects produced 14 mmtoe in 2017; the output from new, recently launched and soon-to-be-launched oil and gas projects will reach 87 mmtoe per annum by 2022.

In 2017, the total refining throughput at the Company's refineries in Russia and abroad amounted to about 113 mmtoe, having increased by over 12%. We kept improving the quality operational indicators of our refineries: light product yield exceeded 58%, and refining depth exceeded 75%. As of today, providing about 40% of all

domestic motor-fuel supplies, we are the core player securing the stability of the domestic market of petroleum products. Being an exchange-trade leader both in bulk and small wholesales, the Company takes every possible measure to maintain the domestic petroleum-products market stability.

Our refining priority is to further develop the refining capacities on key end markets and our petrochemical business. However, the scale and targets of such investments will most likely depend on the tax regime, refining investment incentives and other regulations to be essentially implemented by the Russian government, including obligatory quotas for Russian producers on oil supplies to the domestic market discussed yesterday at the President's meeting with government officials.

The Company invests in refineries that are the largest-scale in the industry by volume and number of processing units and complexes. **The total amount of the Company's investments in refinery development exceeds 800 bln rubles.**

The modernization program rooting from quadrilateral agreements of 2011 was launched when 60/66 tax scenario was in effect that stimulated investments in refining construction. The Company managed to stay on track with the modernization program in spite of the fact that regulators changed for worse the operating conditions of refineries under "the tax maneuver". For

instance, the Company commissioned and/or reconstructed over ten units (reforming, isomerization, catalytic cracking) at key refineries across Russia in the last four years.

For reference:

	Name	Throughput, thousand tpa	Year of completion	Entity
1	<i>Reforming</i>	<i>1,200</i>	<i>2014</i>	<i>JSC Novokuibyshevsk Refinery</i>
2	<i>Isomerization</i>	<i>280</i>	<i>2015</i>	
3	<i>Isomerization</i>	<i>800</i>	<i>2015</i>	<i>JSC Ryazan Oil Refining Company</i>
4	<i>Isomerization</i>	<i>280</i>	<i>2015</i>	<i>JSC Kuibyshevsk Refinery</i>
5	<i>MTBE</i>	<i>40 by product</i>	<i>2016</i>	
6	<i>Catalytic cracking</i>	<i>1,150</i>	<i>2016</i>	
7	<i>Reforming (upgrading)</i>	<i>1,000</i>	<i>2016</i>	
8	<i>MTBE</i>	<i>42 by product</i>	<i>2016</i>	<i>JSC Angarsk Petrochemical Company</i>
9	<i>Reforming (upgrading)</i>	<i>600</i>	<i>2016</i>	<i>JSC Syzran Refinery</i>
10	<i>Vacuum distillation BT- 4 of unit AT-6</i>	<i>4,380</i>	<i>2015</i>	<i>JSC Ryazan Oil Refining Company</i>

In addition, with reference to key achievements of 2017 specifically, I'd like to mention the commissioning of one of the largest biological wastewater treatment plants in the world at the Bashneft-Ufaneftekhim subsidiary after a massive upgrade worth over 11.5 bln rubles. A catalyst out-of-core regeneration unit was put into operation at the Novokuibyshevsk Catalyzers Plant at the cost of 3 bln rubles, which allowed regenerating over 2,000 tonnes of catalysts for the Company's refineries and

third parties in 2017.

The Yaroslavl Refinery launched production of high-purity Group III base oils to expand the range and reduce the net cost for the manufacture of advanced synthetic and semi-synthetic oils; the investment in the project amounted to 6.4 bln rubles.

The Company undoubtedly pays great attention to its retail business. Managing the largest network of filling stations in Russia comprising 2,966 stations, we are planning their development, aimed at strengthening the customer service package. For instance, we intend to increase the number of complexes with cafes (from 58% up to 84% in 2022), as well as the number of multi-purpose highway complexes; to introduce digital services at filling stations, such as in-app payment or payment with a virtual card. At the same time, as is proposed by the “ROSNEFT 2022” strategy, the work continues on transition to a holding management structure with a pilot project being implemented in the retail segment, which will allow bringing complementary competences in retail to reduce the costs and boosting the share of non-fuel sales and, if required, bringing capital for additional growth and increasing the market share in this segment.

One of the priority areas for the Company is the development of oil products sales channels at the domestic market. For instance, in 2017 the volume of sales rose by: 10% for jet fuel, 47% for bunker fuel, 23% for bitumen.

In terms of foreign refining assets, I'm glad to inform the participants of the meeting about the successful **closure of Rosneft's purchasing a 49% stake in a top-quality asset, the Indian Essar Oil**, which has recently been renamed into Nayara Energy, in 2017. As a result, Rosneft gained access to a rapidly growing market of India, where the middle-term rate of the GDP increase will, according to expectations, rise above 8.0% per annum. The Nayara Energy refinery is situated in close vicinity to the deep-water port of Vadinar and has convenient logistics for providing products not just for India, but for the entirety of the Asia-Pacific region. Today the plant has the refining capacity of 20 mln tonnes of high complexity level (Nelson Index of 11.8). Based on the existing assets of the refinery we see opportunities not just for a many-fold increase of capacity, but also for the construction of petrochemical production, which will become another sphere of growth for Rosneft on this extremely promising market.

The development of the global energy industry features outrunning growth of gas output and consumption as the most

environmentally-friendly among fossil fuel resources. The share of gas in the global energy mix will continue to increase – we expect gas share growth from 22% in 2016 to 25% in 2040, which in absolute terms means a 50% increase in the level of consumption equal to almost 1.5 btoe. In Russia, given its huge reserves and developed gas pipeline infrastructure, gas will also remain at the core of the fuel mix in the foreseeable future. Considering these trends, the Company has designated the gas business as one of the strategic growth areas.

In 2017, **Rosneft reinforced its position as Russia's largest independent gas producer with a total production of about 72 bcm** and a 17% share on a local market. The foundation for the growth strategy in gas industry is the irreproachable implementation of key major construction projects, oil refining and petrochemicals development, as well as introduction of new technologies.

The main increase in gas production in the coming years will be provided by the Rospan project. Next year, Rospan expects over a twofold increase in production compared to the level of 2017 at 6.5 bcm with an increase in consecutive years of over 19 bcm of gas per annum. Also in 2017, target implementation of projects to increase natural gas production at Sibneftegaz continued, preliminary work is under way to bring

Kharampur field to the design capacity of 11 bcm in 2020.

With regard to international gas projects, I am also pleased to inform you that at the end of 2017 gas production **began at the strategic international project – the Zohr** field in Egypt that is being developed together with Eni and BP.

For reference:

In April-May 2018, new trains of a gas treatment plant were put into operation which, taking into account putting into operation additional two trains, will enable to increase capacity to 50 mcm per day shortly.

A clear long-term vision, impressive operating results, and increased efficiency along the entire Rosneft's business have become the foundation for the Company's strong financial results in 2017. Last year alone, the Company's revenue increased by over 20% exceeding the level of 6.0 trln rubles or \$106 bln at the average exchange rate.

Due to ceaseless work on reducing operating costs, and – I'd like to stress it - despite the growth of tax burden earnings before interest, taxation, depreciation and amortisation (EBITDA) increased by almost a quarter, exceeding \$24 bln. An important part in profit's growth was played by obtaining synergies from new asset integration – first of all, Bashneft and Nayara Energy, as well as participation in joint projects with our partners, logistics improvement, and increasing efficiency of

trading. In 2017, Rosneft's net profit increased by over 27% to 222 bln rubles.

Based on the achieved financial results today Rosneft is the largest company of the Russian oil and gas industry by market capitalization. As of today, the total market value of the Company exceeds 4 trln rubles (\$64.0 bln) and for our shareholders I would like to note separately that for the time since the previous Meeting our capitalization ratio has grown by 21%. For reference, the market capitalization of other companies, taking into account the adjustment for their own shares purchased by them, is: Lukoil - \$46 billion, Gazprom - \$46.7 billion.

For reference: Market capitalization at the close of trading on June 20, 2018, \$ bln

<i>Company</i>	<i>Without adjustment for buyback of own shares</i>	<i>Adjusted for buyback of own shares</i>
<i>Rosneft</i>	<i>64.4</i>	<i>64.4</i>
<i>Lukoil</i>	<i>55.1</i>	<i>46.0</i>
<i>Gazprom</i>	<i>50.1</i>	<i>46.7</i>
<i>Novatek</i>	<i>43.0</i>	<i>42.7</i>

Market experts and analysts note significant prospects for financial performance improvement and the Company's stable financial position. For instance, Moody's rating agency assigned Rosneft a credit rating of investment grade. The Company has the highest credit rating by the largest credit rating agency in

Russia Expert RA.

The financial results achieved in 2017 are important in the context of the core part that the Company plays in Russian economy being the largest taxpayer in the country. Rosneft achieves high financial efficiency despite some of the highest tax burden per unit not only in the international oil industry, but also among Russian resource companies. In 2017, the overall volume of taxes and fees paid by Rosneft to the budgets of all levels amounted to 2.6 trln rubles.

We are also one of the largest investors in the Russian economy: last year the Company's capital investment amounted to 922 bln rubles. The multiplier effect of the Company's investments in the Russian economy, taking into account the use of related sectors, is about 6.0 trln rubles.

One of Rosneft's strategy key priorities is health, safety, and environment. We consider it our duty to provide safe conditions for employees, partners and the local residents in regions of our operation. As a result of the Company's policy of gradually increasing the level of working conditions safety, the Company achieved significant improvements in the rate of injury in 2017 – for example, injury severity was reduced by 20 pct (from 34% to 14%). In 2017, a large-scale work was carried out to ensure environmental safety, conservation and restoration

of natural resources in regions of the Company's operation. Our expenditures in this area increased by 40% having exceeded 100 bln rubles.

We also continued to invest significant funds **in increasing the level of beneficial use of natural and associated gas from oil fields.** These investments amounted to about \$2 bln over the past five years, which is comparable to efforts from the largest companies in the sector in the area of "green energy". I think this is more effective than subsidising certain "green" technologies.

Rosneft's main asset is high-skilled personnel motivated to work efficiently. Today the Company is one of the largest and at the same time socially responsible employers in Russia. Throughout 2017, the average headcount of Rosneft Group Subsidiaries totaled 302,000 increasing by 48.9 thousand year-on-year. The increase was primarily due to new asset acquisitions (Targin Group of 17,000 employees), the personnel of Bashneft Group subsidiaries recorded for the whole of 2017, and taking on personnel from third-party service contractors.

The company is focused to continuously reduce general and administrative expenses and increase efficiency. Last year, we ensured their curbing was below the inflation level, despite the significantly expansion of the entire Rosneft's business.

Work continues on formation of a Company's talent pool and training high-skilled personnel. Over 3,000 succession pool members had training and 533,000 compulsory vocational, and managerial training man-courses were taught in 2017. The training programs lay a particular focus on training personnel in line with the "ROSNEFT 2022" strategy priorities. Within cooperation with universities, over 20,000 students took part in career guidance activities. Over 6,000 students did an internship at Rosneft's enterprises.

In 2017, the Company allocated 28.1 bln rubles into implementation of social programs, including creating optimal working conditions, promoting healthy lifestyles, and providing its employees with healthcare and social guarantees.

Section 3. Future Objectives

At the Annual Shareholders' Meeting last summer, we announced development of the new "ROSNEFT 2022" strategy with the main growth priorities in the medium term formulated. The Company's Board of Directors approved the "ROSNEFT 2022" Strategy in December 2017, and I am glad to inform our shareholders that its implementation is well under way.

New "ROSNEFT 2022" Strategy is aimed at thorough transformation of the Company's business quality and strengthening of main competitive advantages based on the three

key objectives:

1. to increase profitability by improving existing asset performance;
2. to develop best project management skills in the industry and achieve target synergies;
3. to strengthen corporate culture and technological capability to further strengthen competitive advantages and introduce new forms of management and business organization.

The new strategy “ROSNEFT 2022” ensures maintaining and developing one of the Company’s key competitive advantages, the lowest unit lifting costs per barrel among public entities in the industry.

Under the strategy, the Company plans to replace at least 100% of liquid hydrocarbon (once again, last year this figure was 184%) and to secure the total organic growth of hydrocarbon production up to 330 mmtoc by 2022.

The major objective in the gas business under “ROSNEFT 2022” is set at producing 100 bcm by 2020. The strategy implementation also implies increasing APG utilization up to at least 95%.

A major landmark of the Company’s growth under “ROSNEFT 2022” is our petrochemical business to be built

on the base of the Company's existing assets and through engaging our partners, industry experts and project financing.

In addition, **one the strategy's element important for the entire business will be accelerating the technological breakthrough**, enhancing expertise in the in-house oilfield service, as well as strengthening our investment and project management, primarily through accelerated digitization.

I'd like to stress that the "ROSNEFT 2022" strategy is fully in line with provisions of the President Vladimir Putin's Address to the Federal Assembly on February 2018 and with provisions of Executive Order On National Goals and Strategic Objectives of the Russian Federation through to 2024. The Company is willing to do its best in contributing to achieving the objectives and to implementing the core initiatives set by the President of the Russian Federation, including:

- **Talent Pool Development**
- **Social Development** in the Company's regions of operation through providing latest health services, active supporting of retired employees, and improving housing options for workers;
- **Forming Comfortable Urban Environment, "Future Cities"** through developing new services at fuel stations,

using energy-efficient solutions and green services in the Company's cities of operation;

I'd like to note that the strategic tasks approved by the Board of Directors are being quickly and successfully brought to real life. For instance, according to the preliminary results on **H1 2018**, we **have already reached our annual targets** set in the Strategy, if compared with 2016 numbers.

As for some actual examples, the share of **horizontal wells drilling** increased from **32%** in 2016 to **36%** in 2017 and already to 40% in 2018. In H1 2018, an increase in the well **overhaul period** amounted to **3.8%**. In the same period, we **increased the well workover crew operations** by **4.8%** that is also higher than the planned level of **4.0%**. **The average well workover time decreased by 5.1%** due to ceaseless implementation of organizational and technical measures to reduce crew downtime, without implementing projects requiring additional investments. Similar progress can be witnessed in a range of other strategic sectors.

The Company **optimized its expenses** for over **15 bln rubles** for 2018-2020 due to **consolidated engineering and technological drilling service procurement** for the entire volume of directional drilling of Rosneft Group all at once.

As part of the **import substitution** program reducing the

dependency on US and European manufacturers, **two hydrofracturing fleets** with our partners have been launched since early 2018.

The technological factor is becoming a key competitive factor along the entire value creation chain in the oil industry. In this regard, Rosneft pays special attention to the development of its technological capabilities and to the use of technological approaches that will ensure its leading position in the global oil and gas industry for many years to come.. To achieve this, today the Company:

- actively applies velocity-depth models, wave modeling, wireless field observations;
- pays special attention to to issues of **robotization and automation of production**; in particular, an integrated tracking system was introduced that allows tracing the drilling process of each Company’s well from the start of design requirements development to completion and commissioning, in fact creating a “digital twin” of the well;
- plans to create **fully robotic drilling sites**, thus minimizing human involvement in hazardous production processes, including those taking place under special climate conditions;
- implements joint projects with leading domestic enterprises

- on the development of **high-tech well-logging equipment** manufacturing aimed at studying formations in complex geological and technological conditions;
- implements advanced global production maintenance systems on mature fields;
 - explores and applies successfully the technology for multilateral well construction using the Fishbones Stimulation Technology with up to seven sidetracks of 5.5 km in the total length.

A pilot launch of **the first in Eurasia Russian hydraulic fracture simulator RN-GRID** developed by the Company on **its own**, was performed at the largest production enterprises, while our service subsidiary LLC RN-GRP switched to it completely. As of today, **over 1,000 hydraulic fracturing operations** were performed using the full-cycle designing of the simulator.

Under **digitization** strategy, a single **Data Processing Center** was build, one of the most unique solutions in the Russian oil and gas industry by its characteristics and data protection level. In cooperation with one of the world's leaders **General Electric** and with the Company's resources, the Data Processing Center was equipped with an IT-platform **GE Predix** for integrated production management.

I'm sure that our implementation of the above-mentioned initiatives will ensure success in our core objectives, those are market capitalization increase and the Company's shareholders yield enhancement.

Section 4. Increasing the Company's Shareholders Yield

Concluding my presentation, I'd like to emphasize the progress in our key strategic priority that is increasing the Company's shareholders yield.

Over 100,000 individuals and 500 major international investment funds hold the Company's shares today.

Since the IPO completed in 2006, the Company paid out over 720 bln rubles of dividends, including over 500 bln rubles to the Russian Federation.

Conscious of the importance of increasing the yield of shareholders and the Company's investment appeal for the world investment community, in August 2017 the Company's Board of Directors approved the new Dividend Policy which provides increasing the minimum dividend up to 50% of the net profit under IFRS with payout frequency at least twice a year. At the moment it is the most progressive and unique Dividend Policy in the oil and gas industry in Russia.

Increase of dividend allows us to almost double the

dividend amount which will be 10.5 rubles per share, including interim dividends, for 2017. Assuming all liability limitations regarding discussing the information on financial perspectives and providing value judgments, I do not exclude that in the year 2018 we are going to see the increase of dividends - preliminary forecast data of the previous months suggest doubling of net profit and dividends comparing to the corresponding level of 2017.

In addition to the increasing the minimum dividend, the Company implements other activities aimed at enhancing the shareholders yield as well. For instance, at one of the forthcoming Board of Directors meeting we are planning to look into the parameters of the buyback program on acquisition of Rosneft's shares from the open market.

I assure you that we will do our best to make the approved strategy implementation significantly increase yield for our shareholders.

To sum up the accounting year, I'd like to once again assure our shareholders that Rosneft has sufficient resources and expertise for meeting the complex goal - to meet growing demand for hydrocarbons on the global market, increase the share of gas in total production and become a top 25% global oil and gas company in Health, Safety & Environment. **The year**

2017 was an important year for new achievements, production and financial results, closing strategic deals and defining challenging goals for future, and we are already working towards meeting these goals.

THANK YOU FOR YOUR ATTENTION