

APPROVED

**by Decision of Board of Directors of Rosneft
dated June 20, 2013**

Minutes № 20 dated June 20, 2013

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by Order № 338 dated 31, 2013

COMPANY'S POLICY

IN THE AREA OF WORKING CAPITAL MANAGEMENT

№ P2-06.01 P-01

VERSION 1.00

(with amendments approved by the decision of Board of Directors Meeting (Minutes of the meeting dated 22.06.2017 № 29) effective as of 28.08.2017 by Order № 489)

CONTENT

INTRODUCTORY PROVISIONS	3
INTRODUCTION	3
OBJECTIVES.....	3
TASKS	3
AREA OF APPLICATION	3
EFFECTIVE PERIOD AND AMENDMENT PROCEDURE	4
1. TERMS AND DEFINITIONS.....	5
2. SYMBOLS AND ABBREVIATIONS	6
3. POLICY BASIC PROVISIONS.....	7
4. PRINCIPLES OF WORKING CAPITAL ELEMENTS MANAGEMENT.....	9
5. STAGES OF WORKING CAPITAL MANAGEMENT	12
6. REFERENCES	14

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INTRODUCTORY PROVISIONS

INTRODUCTION

THE COMPANY'S POLICY IN THE AREA OF WORKING CAPITAL MANAGEMENT (hereinafter – the “**POLICY**”) shall set objectives and tasks of the Company in the area of the working capital management, determine basic principles for management of elements of the Company's working capital.

This **POLICY** shall be a fundamental document, regulating the process of the working capital management in the Company, and binding for management and regulation in the course of activities carried out by subsidiaries and organization departments of Rosneft.

OBJECTIVES

This **POLICY** was elaborated for the following purposes:

- formalization of the Company's approach to forming of the working capital,
- description of the Company's activity in the area of the working capital management,
- determination of primary areas of optimizing the working capital structure

TASKS

This **POLICY** shall set the following tasks:

- building of a common approach to the working capital management;
- determination of basic principles for the working capital management;
- determination of conditions and parameters for implementing the process of the working capital management.

AREA OF APPLICATION

This **POLICY** shall be binding for all employees of all organization departments of Rosneft and subsidiaries of Rosneft, which by their operations influence directly or indirectly formation of or changes in the working capital.

This **POLICY** shall bear recommendatory nature to employees of Rosneft's affiliates.

Requirements of this **POLICY** shall be subject to compulsory implementation in subsidiaries of Rosneft, subsidiaries of Rosneft's subsidiaries and affiliates of Rosneft after they are validated in them in accordance with the effective legislation, their Charters and procedures.

Order, local regulatory and other internal documents shall not conflict with this **POLICY**.

EFFECTIVE PERIOD AND AMENDMENT PROCEDURE

This **POLICY** shall be a permanent local regulatory document.

This **POLICY** shall be approved in Rosneft by a decision of the Board of Directors of Rosneft and put into force in Rosneft by Rosneft's order.

This **POLICY** shall be recognized as ceased to be in force in Rosneft on the basis of a decision of the Board of Directors of Rosneft.

Amendments to this **POLICY** shall be introduced on the basis of a decision of the Board of Directors of Rosneft and put into force by Rosneft's order.

Introduction of amendments to this **POLICY** shall be initiated by: senior managers of Rosneft, the Financial Department of Rosneft, as well as other organization departments of Rosneft and subsidiaries of Rosneft, by agreement with the Financial Department of Rosneft.

Amendments to this **POLICY** shall be introduced in the following cases: changes in the legislation of the Russian Federation, changes in the organizational structure or powers of managers, etc.

1. TERMS AND DEFINITIONS

TERMS AND DEFINITIONS OF CORPORATE GLOSSARY

CIRCULATING ASSETS – assets characterizing a set of property holdings of the Company, which serve day-to-day production – commercial (operating) activities and completely consumed in the course of one production – commercial cycle.

Note: circulating assets include the following items of section II of the Balance sheet: “Supplies”, “Value added tax on acquired assets”, “Debts receivable”, “Cash and cash equivalents”, “Other circulating assets”.

COUNTERPARTY – any Russian or foreign legal entity or individual, Rosneft or its subsidiary enters into contractual relations with, with the exception of labour relations.

DEBTS RECIVABLE – debts of legal entities or individuals resulting from the contractual right to receive funds or other financial assets from a third party organization.

DEBTS PAYABLE – a sum of indebtedness of an entity to legal entities or individuals resulting from business their relations.

KEY PERFORMANCE INDICATORS (KPI) – indicators formed on the basis of a strategy or a business plan to evaluate performance of individual employees and / or departments of the Company.

MATERIAL AND TECHNICAL RESOURCES – economic resources in a tangible physical form.

OVERDUE DEBTS PAYABLE / RCEIVABLE – matured but not repaid debts.

Note: A number of days of an overdue debt shall be counted from the day following the maturity date according to conditions of a contract and other documents.

SHORT-TERM LIABILITIES – funds invested in circulating production assets and floating funds of the Company ensuring its day-to-day operations and convertible into cash assets.

Note: short-term liabilities include the following items of section V of the Balance sheet: “Debts payable”, “Deferred income”, “Estimated liabilities”, “Other liabilities”.

WORKING CAPITAL – a difference between the amount of circulating assets and the amount of short – term liabilities.

WORKING CAPITAL MANAGEMENT – determination of the composition (structure) and maintenance of the optimal level of working assets for the purpose to achieve the optimal correlation between the operational profitability and liquidity (solvency) of the Company as well as in selection and maintenance of the necessary correlation between sources of long – term and short – term financing of the working capital.

2. SYMBOLS AND ABBREVIATIONS

COMPANY – a group of legal entities of various corporate forms, including Rosneft, with regard to which the latter acts as a parent or predominant (participating) entity.

IAS - international standards of financial reporting.

LRD – local regulatory documents.

M&TR – material and technical resources.

ORGANIZATION DEPARTMENT (OD) – an organization department of Rosneft with its individual functions, tasks and responsibility within its competences, provided under the regulations on organization departments.

SUBSIDIARY (SBY) – an entity, with regard to which Rosneft by virtue of dominant direct (indirect) participation in its authorized capital, or in accordance with a contract concluded between them, or in any other manner has the possibility of determining decisions made by the entity.

SENIOR MANAGERS – First Vice – President of Rosneft, State Secretary – Vice – President of Rosneft, Vice - Presidents of Rosneft, Chief Accountant of Rosneft, Financial Director of Rosneft, Vice - President of Rosneft – Chief of Security Service, Vice - Presidents – Directors of Departments, Advisors to the President – Directors of Departments in the rank of Vice - Presidents, Heads of Services of Rosneft, Head of Rosneft President’s Administration.

3. POLICY BASIC PROVISIONS

The Company recognizes the macro economical importance of its activities as one of the largest budget – making enterprises of the Russian Federation.

Constructive efforts of the Company's working capital management system not only have positive impacts on improvement of the economic outcome from funds withdrawn from business turnover, but also substantially contribute to the Company's efficiency and increase in its value in general.

When forming the working capital the Company shall adhere to the approach, marked by complete satisfaction of all needs in working assets and establishment of the normal level of insurance reserve to address failures in the course of the Company's operations.

This approach to forming of the working capital shall ensure the optimal correlation between the level of risk and the level of efficiency in using financial resources for actual business conditions.

The Company shall build its policy with regard to the working assets, on the basis of the following principles:

- preliminary planning of future income and expenses of the Company;
- centralization of financial settlements inside the Company, which makes it possible to attain the maximum efficiency and equilibrium of the working capital use;
- calculation of the necessary amount of the working capital on the basis of requirements to secure uninterrupted day-to-day operations, fulfillment of obligations, as well as implementation of investment programs.

Formation of sources for financing of the working assets shall be subject to changes in:

- prices for oil and oil products at the domestic and foreign markets;
- the volume of sales due to change in the total volume of production and processing of oil and gas;
- a share of exports of oil and oil products in sales volumes;
- export dues, tariff for transportation;
- tax laws, etc.

The Company's Policy in the area of the working capital management shall set the following overall objectives:

- creation of conditions for sustainable development and growth of the Company's capitalization;
- enhancement of the Company's working capital management efficiency;
- maintenance of the Company's financial stability and liquidity.

For achievement of the said objectives the following tasks shall be solved:

- reduction of the length of the operating cycle of the Company's working capital flow;

- determination of the optimum value and the optimal structure of the working capital;
- acceleration of the Company's working capital turnover;
- provision of the equilibrium of cash flows through attainment of the optimal correlation between the amount of debts payable and the amount of debts receivable;
- determination of the principles for financing individual components of the Company's working assets;
- optimization of the volume and structure of sources of financing maintaining acceptable value of liquidity and return on the working assets;
- involvement in the working capital management process of senior managers of Rosneft, heads of organization departments of Rosneft and heads of subsidiaries of Rosneft to enhance efficiency of the working capital management.

4. PRINCIPLES OF WORKING CAPITAL ELEMENTS MANAGEMENT

For the purpose of this **POLICY** the working capital shall be broken down into the following key elements:

- debts receivable;
- reserves of M&TR, including reserves of oil and oil products;
- debts payable.

Considering the necessity to enhance efficiency of the Company's working capital management the following principles of the working capital management elements Company shall apply:

1. With regard to **debts receivable** - the approach to formation which lies in minimization of this element and withdrawal of funds from the turnover.

Enhancement of efficiency of the working capital use depends on fulfillment of the following conditions:

- analysis and ranking of customers depending on volumes of purchases, history of credit relations and proposed payment conditions;
- standartization of conditions repayment of debts receivable of outside debtors under newly concluded contracts and introduction of amendments in current contracts;
- minimization of the payment deferment time for the Company's buyers;
- minimization of prepayment for suppliers and contractors, with the exception of cases and conditions of prepayment agreed by the Company;
- offsetting of counter claims without withdrawal of funds and increase of the debts receivable balance as of the period end;
- acceleration of collecting debts and reduction of bad debts;
- forecasting cash inflow from debtors and reconciliation of the actual amount of debts receivable with the target;
- maintenance of the debts receivable turnover period at the optimal level – up to 30 calendar days;
- control of settlements with debtors with regard to overdue debts receivable for reduction of bad debts;
- non-admission of growth in the amount of overdue debts receivable;
- continuous work with overdue debts receivable¹ and deficiencies subject to mandatory observance of dates of claims administration and executive measures², approved in the Company;

¹ Company's Standard "Management of debts receivable and debts payable" № P2-06 S-0007

² Company's Standard "Mechanism for compensation of losses and damage caused to the Company through actions (failure to act) of employees / office holders, representatives of counter- and third parties" № P3-06 S-005

- formation of reserves for doubtful debts (deficiencies) in accordance with the procedure and within the time-frames, established under the effective legislation and LRD³ of the Company.
2. With regard to **reserves of M&TR** the Company shall apply the approach, which makes it possible to satisfy optimal needs in reserves and to ensure effective management of reserves.

Effective management of M&TR reserves makes it possible to reduce the length of the operating cycle, current costs for management of reserves, transaction costs for their purchase, to withdraw from the current business turnover of a part of financial assets, reinvesting them in other assets.

The following conditions shall be fulfilled for attainment of the highest level of efficiency of M&TR reserves management:

- elaboration and introduction of schemes for management of production processes (production and buying cycles), which make it possible to optimize the level of reserves;
- identification of the level of provisioning production and sales with relevant M&TR reserves and evaluation of effectiveness of their use;
- rating of individual types and groups of M&TR reserves;
- establishment of the system to control actual levels of M&TR reserves and their timely replenishment in accordance with established standards;
- optimization of the overall level of M&TR reserves;
- ensuring high turnover and effective forms of M&TR reserves flows;
- building of the effective system to control M&TR reserves flows in the Company;
- personification of responsibility for the level of M&TR through the mechanism of key performance indicators.

With regard to **reserves of oil and of oil products** the Company shall apply the approach, which makes it possible to ensure the optimal level of reserves and effective management of reserves throughout the whole chain of supplies and excluding cases of oversupply.

Effective management of oil and oil products reserves makes it possible to reduce the length of the operating cycle, current costs for storage and management of reserves, to withdraw from the current business turnover of a part of financial assets increasing cash flows and reinvesting funds in other assets.

For management of oil and oil products reserves the Company shall elaborate a methodology, determining a unified approach for comprehensive evaluation of levels of reserves (including in terms of financial and commercial risks) on all storage locations and creating a base for enhancement of efficiency of reserves use.

The following conditions shall be fulfilled for attainment of the highest level of efficiency of oil and oil products reserves management:

³ Company's Instructional Guidelines "Procedure for creation of reserves for doubtful debts against depreciation of financial investments in accordance with RAP and IAS" № P3-07 M-0023

- identification of levels of reserves and turnover of oil and oil products throughout the whole chain of supplies;
 - rating of individual groups of oil and oil products reserves;
 - establishment of the system for planning, forecasting and control of actual levels and turnover of M&TR reserves and their timely replenishment / realization in accordance with established standards;
 - ensuring high turnover and effective forms of oil and oil products reserves flows;
 - optimization of the volume and the cost of the working capital, held in commodity stocks of oil and oil products;
 - using advantages and capabilities of the market: implementation of the strategy for accumulation or reduction of resources to attain additional business effect.
3. With regard to **debts payable** the Company shall apply the approach, which provides an acceptable growth of relevant liabilities and, as a consequence, minimization of the total financing costs.

Basic principles to manage debts payable shall be:

- establishment of such contractual relations with counterparties, which make terms and amounts of the Company's payments to the latter dependent on inflow of cash from buyers;
- necessity of evaluating the credit policy of counteragents, determination of the value of debts payable inclusive of discounts, bonuses, detriments, credit limits and liabilities;
- making of decisions on feasibility of work with counterparties, both on the operating and strategical levels;
- extension of a period of the turnover of debts payable up to 60 calendar days and more;
- transfer buyers of oil and oil products of the Company to conditions of prepayment;
- control of the value of overdue debts payable in their general structure;
- writing off debts payable with the expired term of limitation of actions;
- structuring transactions for acquisition by the Company of shares (stakes in authorized capitals) in such a way that to minimize the amount of debts receivable and debts payable on the balance of the acquired entity;
- non-admission of creation of overdue liabilities, entailing responsibility in the form of penal sanctions and fines.

5. STAGES OF WORKING CAPITAL MANAGEMENT

Management of the working capital in the Company shall be carried out in the following stages:

- **Planning of key indicators:**
 - ♦ planning and approval of limits of debts receivable and debts payable for SBY and OD;
 - ♦ planning and approval of levels of M&TR reserves and oil products for SBY;
 - ♦ planning of turnover of debts receivable, debts payable, M&TR reserves, oil and oil products.
- **Organization of the process:**
 - ♦ collection, consolidation and analysis of data provided by SBY and OD, in accordance with approved forms statements of flow of debts receivable and debts payable, M&TR reserves, oil and oil products reserves.
- **Coordination of SBY and OD:**
 - ♦ regulation of activity of OD and SBY in the area of the working capital management;
 - ♦ ensuring interaction of divisions, responsible for formation, transportation and sale of oil and oil products reserves throughout the whole chain of supplies.
 - ♦ making operating decisions on the working capital management.
- **Control:**
 - ♦ control of fulfillment of established planning variables for key elements of the working capital;
 - ♦ control procedures with regard to overdue debts receivable / debts payable.
- **Evaluation and comparison of data:**
 - ♦ analysis of the structure and dynamics of key elements of the working capital;
 - ♦ comparison of obtained data with set targets;
 - ♦ evaluation of the attained economic effect on established periods;
 - ♦ identification of tendencies of influencing basic factors on the working capital movement.
- **Making managerial decisions:**
 - ♦ making decisions on the basis of the carried out analysis of available data and identified problems;
 - ♦ communication of decisions to SBY and / or OD.

For the purpose of grouping and analyzing indicators in accordance with IAS collection and analysis of management reporting on movement of key elements of the working capital shall be subject to inclusion of key indicators in the following groups:

- **for debts receivable and debts payable** – classification by repayment dates up to 1 year and more than 1 year;

- **for reserves** – designation of groups of M&TR reserves allocated for investment activity. Designation of groups of oil and oil products reserves for establishment of planned normative standards and making operating decisions.

6. REFERENCES

1. Company's Standard "Management of debts payable and debts receivable" № P2-06 S-0007 version 3.00, approved by decision of the Management Board of Rosneft 19.06.2013 (Minutes № 18 dated 19.06.2013), put into force by Rosneft's Order № 342 dated 31.07.2013.
2. Company's Standard "Mechanism for compensation of losses and damage caused to the Company through actions (failure to act) of employees / office holders, representatives of counter- and third parties" № P3-06 S-005 version 1.00, approved by Rosneft's Order № 210 dated 28.05.2007.
3. Company's Instructional Guidelines "Procedure for creation of reserves for doubtful debts against depreciation of financial investments in accordance with RAP and IAS" № P3-07 M-0023 version 1.00, approved by Rosneft's Order № 60 dated 09.02.2011.