



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2018 AND MARCH 31, 2018
AND FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017**

Management's discussion and analysis of financial condition and results of operations of Rosneft for the second quarter of 2018

The following discussion of Rosneft's financial condition and results of operations is based on, and should be read in conjunction with, the Company's financial statements and the notes thereto for the periods ended June 30, 2018 and 2017 and March 31, 2018 (the "Interim Condensed Consolidated Financial Statements"). Such terms as "Rosneft", "Company" and "Group" in their different forms in this report mean PJSC Rosneft Oil Company and its consolidated subsidiaries, its equity share in associates and joint ventures. This report contains forward-looking statements that involve risks and uncertainties. Rosneft's actual results may materially differ from those discussed in such forward-looking statements as a result of various factors.

Except as otherwise indicated, oil and gas reserves and production are presented pro-rata for associates and joint ventures and 100% for fully consolidated subsidiaries.

Except as otherwise indicated, all amounts are provided in billions of RUB. All figures are rounded, however, figures per unit of production are provided based on the actual data.

To convert tonnes of liquid hydrocarbon (except gas condensate of JSC "Rosspan International") to barrels a 7.404 ratio is used. To convert Rosspan gas condensate to barrels a 8.3 ratio is used. To convert a thousand of cubic meters of gas to barrels of oil equivalent a 6.09 ratio is used.

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Management's discussion and analysis of financial condition and results of operations of Rosneft for the second quarter of 2018

Overview

Rosneft is a vertically integrated oil and gas company with core activities and assets located principally in Russia. The Company is primarily engaged in exploration and production of hydrocarbons, oil refining and product marketing mainly in the Russian Federation.

According to oil and marketable gas reserve information prepared by DeGolyer and MacNaughton, independent reservoir engineers, proved hydrocarbon reserves reached 40 billion boe per SEC classification and 47 billion boe per PRMS classification as of December 31, 2017 and amounted to 38 billion boe per SEC classification and 46 billion boe per PRMS classification as of December 31, 2016¹.

In the second quarter of 2018 crude oil and NGL production of the Company amounted to 56.5 mln tonnes, the production of natural and associated gas was 16.46 bcm.

In the second quarter of 2018 the Company's total crude oil processing amounted to 28.12 mln tonnes at the refineries in Russia and abroad. The remaining volumes of crude oil are exported to Europe, Asia and the CIS.

¹ Including Bashneft proved hydrocarbon reserves of 2 billion boe per SEC classification and 2 billion boe per PRMS classification as of December 31, 2016, respectively.

Financial and operating highlights

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June 30, 2018	March 31, 2018		2018	2017	
Financial results, RUB billion						
Revenues and equity share in profits of associates and joint ventures	2,065	1,722	19.9%	3,787	2,809	34.8%
EBITDA	565	385	46.8%	950	639	48.7%
Net income attributable to Rosneft shareholders	228	81	>100%	309	75*	>100%
Capital expenditures	229	223	2.7%	452	407	11.1%
Free cash flow**	221	142	55.6%	363	178	>100%
Operational results						
Hydrocarbon production (th. boe per day)	5,706	5,708	(0.0)%	5,706	5,744	(0.7)%
Crude oil and NGL production (th. barrels per day)	4,604	4,566	0.8%	4,585	4,593	(0.2)%
Gas production (th. boe per day)	1,102	1,142	(3.5)%	1,121	1,151	(2.6)%
Production of petroleum products and petrochemical products in Russia (mln tonnes)	24.22	23.89	1.4%	48.11	48.46	(0.7)%
Production of petroleum products and petrochemical products outside Russia (mln tonnes)	3.11	2.88	8.0%	5.99	5.86	2.2%

*Net income for 6M 2017 is adjusted due to allocation of the final purchase price of Bashneft assets in 2017.

** Free cash flow estimation for comparative periods includes interest expenses on the prepayment on long-term oil and petroleum products supply agreements. Interest expenses on the prepayment on long-term oil and petroleum products supply agreements are composed of interests accrued for the reporting period and offset against crude oil supply under the contracts in the amount of RUB 22 billion and interests paid of RUB 1 billion in the second quarter of 2018; offsetting of RUB 18 billion and interests paid of RUB 2 billion - in the first quarter of 2018, and offsetting of RUB 36 billion and interests paid of RUB 5 billion - in the first half of 2017.

For reference only: Financial highlights in USD terms*

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June 30, 2018	March 31, 2018		2018	2017	
Financial results, USD billion						
Revenues and equity share in profits of associates and joint ventures	33.9	30.9	9.7%	64.8	50.1	29.3%
EBITDA	9.1	6.8	33.8%	15.9	11.0	44.5%
Net income attributable to Rosneft shareholders	3.6	1.5	>100%	5.1	1.3	>100%
Capital expenditures	3.7	3.9	(5.1)%	7.6	7.0	8.6%
Free cash flow	3.6	2.5	44.0%	6.1	2.9	>100%

*Calculated using average monthly exchange rates of Bank of Russia for the reporting periods (Appendix 2).

Balance sheet events

Recommended dividends at RUB 6.65 per share, which constitutes 50% of its IFRS net profit (including payment of dividends based on the first half of 2017), are approved at Annual General Shareholders' Meeting

On June 21, 2018 the Annual General Shareholders' Meeting approved dividends on the Company's common shares for 2017 in the amount of RUB 70.5 billion, or RUB 6.65 per share.

Macroeconomic factors affecting results of operations

Main factors affecting Rosneft's results of operations are:

- Changes in crude oil, gas and petroleum product prices;
- USD/RUB and EUR/RUB exchange rates and inflation;
- Taxation including changes in mineral extraction tax, export customs duty and excises;
- Changes in tariffs of natural monopolies (for pipeline and railway transport);
- Reduction of crude oil production under the Agreement reached earlier on reduction of world crude oil production by OPEC countries and major oil producing non-OPEC countries (OPEC+ Agreement);
- Changes in electricity prices.

Changes in Crude Oil, Petroleum Product and Gas Prices

World crude oil prices are highly volatile and fluctuate depending on the global balance of supply and demand on the world crude oil market, political situation mainly in the oil producing regions of the world and other factors. Crude oil exported by Rosneft via the Transneft's pipeline system is blended with crude oil of other producers that is of a different quality. The resulting Urals blend is traded at a discount to Brent. Crude oil exported via Eastern Siberia – Pacific Ocean ("ESPO") pipeline is sold at a price which is linked to the price of "Dubai" blend.

Petroleum product prices on international and domestic markets are primarily determined by the level of world prices for crude oil, supply and demand for petroleum products and competition on different markets. Price dynamics depends on the type of petroleum products.

The table below sets forth the average crude oil and petroleum products prices worldwide and in Russia in USD and RUB.

	For 3 months ended			For 6 months ended June 30,		
	June 30, 2018	March 31, 2018	Change	2018	2017	Change
World market	(USD per barrel)			(USD per barrel)		
Brent (dated)	74.4	66.8	11.3%	70.6	51.8	36.4%
Urals (average Med and NWE)	72.5	65.2	11.1%	68.9	50.5	36.3%
Urals (FOB Primorsk)	71.2	64.2	10.8%	67.7	48.9	38.3%
Urals (FOB Novorossysk)	71.8	64.1	11.9%	68.0	49.4	37.7%
Dubai	72.1	63.9	12.8%	68.0	51.5	32.1%
	(USD per tonne)			(USD per tonne)		
Naphtha (av. FOB/CIF Med)	623	559	11.5%	591	447	32.3%
Naphtha (av. FOB Rotterdam/CIF NWE)	634	572	10.9%	603	458	31.7%
Naphtha (CFR Japan)	641	581	10.2%	611	472	29.5%
Fuel oil (av. FOB/CIF Med)	406	356	14.2%	381	288	32.5%
Fuel oil (av. FOB Rotterdam/CIF NWE)	398	351	13.5%	374	281	33.5%
High sulphur fuel oil 180 cst (FOB Singapore)	430	375	14.8%	402	311	29.4%
Gasoil (av. FOB/CIF Med)	649	585	11.1%	617	460	34.1%
Gasoil (av. FOB Rotterdam/CIF NWE)	646	584	10.5%	615	461	33.4%
Gasoil(FOB Singapore)	631	578	9.3%	605	463	30.5%
	(th. RUB per barrel)			(th. RUB per barrel)		
Brent (dated)	4.60	3.80	21.0%	4.19	3.00	39.6%
Urals (average Med and NWE)	4.48	3.71	20.7%	4.09	2.93	39.5%
Urals (FOB Primorsk)	4.40	3.65	20.4%	4.02	2.84	41.6%
Urals (FOB Novorossysk)	4.43	3.65	21.6%	4.03	2.86	40.9%
Dubai	4.46	3.64	22.6%	4.04	2.99	35.2%
	(th. RUB per tonne)			(th. RUB per tonne)		
Naphtha (av. FOB/CIF Med)	38.5	31.8	21.2%	35.1	25.9	35.4%
Naphtha (av. FOB Rotterdam/CIF NWE)	39.2	32.5	20.5%	35.8	26.5	34.8%
Naphtha (CFR Japan)	39.6	33.1	19.8%	36.3	27.4	32.5%
Fuel oil (av. FOB/CIF Med)	25.1	20.2	24.0%	22.6	16.7	35.6%
Fuel oil (av. FOB Rotterdam/CIF NWE)	24.6	19.9	23.3%	22.2	16.3	36.6%
High sulphur fuel oil 180 cst (FOB Singapore)	26.6	21.3	24.7%	23.9	18.0	32.5%
Gasoil (av. FOB/CIF Med)	40.1	33.3	20.7%	36.6	26.7	37.3%
Gasoil (av. FOB Rotterdam/CIF NWE)	39.9	33.2	20.1%	36.5	26.7	36.6%
Gasoil(FOB Singapore)	39.0	32.9	18.7%	35.9	26.9	33.6%
Russian market (net of VAT, including excise tax)	(th. RUB per tonne)			(th. RUB per tonne)		
Crude oil	22.0	17.3	27.2%	19.7	13.4	47.5%
Fuel oil	13.7	10.7	28.3%	12.2	8.8	38.5%
Summer diesel	40.3	35.3	14.4%	37.8	30.7	23.0%
Winter diesel	40.6	37.8	7.5%	39.2	32.2	22.0%
Jet fuel	36.9	35.2	4.9%	36.0	27.8	29.8%
High octane gasoline	42.9	34.6	23.8%	38.8	34.9	11.0%
Low octane gasoline	35.6	34.5	3.2%	35.0	30.6	14.6%

Sources: average prices and changes are calculated based on the unrounded data of analytical agencies.

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The difference between price movements denominated in USD and those denominated in RUB is explained by nominal RUB depreciation against USD by 8.0 % in the second quarter of 2018 compared with the first quarter of 2018 and by 2.3% compared with the first half of 2017.

The Russian Government regulates the price of the gas sold in Russia by Gazprom and its affiliates, which is considered as the benchmark for domestic gas market.) Starting from July 2017, regulated gas price for all groups of end-users grew up by 3.9%. In the first half of 2018, the gas price indexation was not carried out.

USD/RUB and EUR/RUB Exchange Rates and Inflation

The USD/RUB and EUR/RUB exchange rates and inflation in Russia affect Rosneft's results as most of the Company's revenues from sales of crude oil and petroleum products are denominated in USD, while most of the Company's expenses are denominated in RUB.

The table below provides information on the exchange rates movements and inflation during the periods analysed:

	For 3 months ended		For 6 months ended June 30,	
	June 30, 2018	March 31, 2018	2018	2017
Consumer price index (CPI) for the period*	1.3%	0.8%	2.1%	2.3%
Average RUB/USD exchange rate for the period**	61.80	56.88	59.35	57.99
RUB/USD exchange rate at the end of the period	62.76	57.26	62.76	59.09
Average RUB/EUR exchange rate for the period	73.75	69.87	71.82	62.72
RUB/EUR exchange rate at the end of the period	72.99	70.56	72.99	67.50

Source: the Central Bank of the Russian Federation.

*Producer price index amounted to 12.2% y-o-y at the end of June 2018.

**See Average monthly RUB/USD exchange rates in the Appendix 2.

MET, Export Duties and Excise Taxes¹

The table below provides information on actual tax rates of mineral extraction tax and export customs duty of crude oil and petroleum products:

	For 3 months ended		% change*	For 6 months ended June 30,		% change*
	June 30, 2018	March 31, 2018		2018	2017	
Mineral extraction tax						
Crude oil (RUB per tonne)	12,868	10,405	23.7%	11,643	7,492	55.4%
Export customs duty for crude oil						
Crude oil (USD per tonne)	120.5	116.9	3.1%	118.7	85.4	39.1%
Crude oil (RUB per tonne)	7,457	6,649	12.1%	7,055	4,947	42.6%
Crude oil (RUB per barrel)	1,007	898	12.1%	953	668	42.6%
Export customs duty for petroleum products						
Gasoline (RUB per tonne)	2,235	1,993	12.1%	2,114	1,483	42.6%
Naphtha (RUB per tonne)	4,096	3,654	12.1%	3,877	2,719	42.6%
Light and middle distillates (RUB per tonne)	2,235	1,993	12.1%	2,114	1,483	42.6%
Liquid fuels (fuel oil) (RUB per tonne)	7,457	6,649	12.1%	7,055	4,947	42.6%

*Calculated based on unrounded data.

In accordance with Federal Law (#401-FZ) of 30.11.2016 and Federal Law (#355-FZ) of 27.11.2017 excise duties were revised starting from 1.01.2017 and 1.01.2018.

¹ See detailed disclosure on Tax legislation in Attachment 1.

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The excise tax rates on the petroleum products are as follows:

Excise duties (RUB per tonne)	Since January 1 through May 31, 2018		Since June 1 through December 31, 2018*
	2017		
High octane gasoline			
High octane gasoline non-compliant with euro-5	13,100	13,100	13,100
High octane gasoline euro-5	10,130	11,213	8,213
Naphtha	13,100	13,100	13,100
Diesel	6,800	7,665	5,665
Jet fuel	2,800	2,800	2,800
Lubricants	5,400	5,400	5,400
Benzol, paraxylene, ortoxylyene	2,800	2,800	2,800
Middle distillates	7,800	8,662	6,665

*Starting from July 19, 2018 new Federal law 199-FZ entered into force and established a reduction in excise rates for motor gasoline Euro-5, diesel, and middle distillates. The excise rates established by the Law are applied to transactions with the specified excisable goods made from June 1, 2018.

Effective tax burden of the Company was 47.8% and 47.2% in the second quarter of 2018 and the first quarter of 2018, respectively, and 47.6% in the first half of 2018 and 44.3% in the first half of 2017.

The mineral extraction tax and the export customs duty accounted for approximately 39.0% and 38.9% of Rosneft's total revenues in the second and first quarters of 2018, respectively, and approximately 39.0% in the first half of 2018 and 36.2% in the first half of 2017.

Tax withdrawing share in the financial results was up to 83.7% in the first half of 2018.

Changes in Transport Tariffs of Pipeline and Railway Monopolies

Rosneft transports most of its crude oil and petroleum products via pipeline network owned and operated by PJSC "AK "Transneft" ("Transneft"), which is a natural state-owned pipeline monopoly. Rosneft also transports crude oil and petroleum products via railway network mainly owned and operated by Russian railways ("RZD"), another natural state-owned monopoly.

Recent changes of Transneft transportation tariffs

Crude oil

Starting from January 1, 2018 Transneft tariffs for oil pipeline transportation increased by 3.95%.

Recent changes in railroad transportation tariffs

In January 2018 railroad transportation tariffs increased by 5.4% to December 2017 level. In 2018 RZD adopted a number of decisions on the application of decreasing coefficients to the current tariffs for the transportation of cargoes of the Company in certain directions.

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Consolidated statement of profit or loss for the three months ended June 30, 2018 and March 31, 2018 and for the six months ended June 30, 2018 and 2017, respectively

in RUB billions

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June 30, 2018	March 31, 2018		2018	2017 ¹	
Revenues and equity share in profits of associates and joint ventures						
Oil, gas, petroleum products and petrochemicals sales	2,025	1,689	19.9%	3,714	2,751	35.0%
Support services and other revenues	20	21	(4.8)%	41	36	13.9%
Equity share in profits of associates and joint ventures	20	12	66.7%	32	22	45.5%
Total revenues and equity share in profits of associates and joint ventures	2,065	1,722	19.9%	3,787	2,809	34.8%
Costs and expenses						
Production and operating expenses	130	158	(17.7)%	288	297	(3.0)%
Cost of purchased oil, gas, petroleum products and refining costs	285	232	22.8%	517	367	40.9%
General and administrative expenses	43	35	22.9%	78	74	5.4%
Pipeline tariffs and transportation costs	152	160	(5.0)%	312	298	4.7%
Exploration expenses	3	2	50.0%	5	5	—
Depreciation, depletion and amortization	157	152	3.3%	309	296	4.4%
Taxes other than income tax	682	568	20.1%	1,250	899	39.0%
Export customs duty	240	215	11.6%	455	326	39.6%
Total costs and expenses	1,692	1,522	11.2%	3,214	2,562	25.4%
Operating income	373	200	86.5%	573	247	>100%
Finance income	29	30	(3.3)%	59	56	5.4%
Finance expenses	(76)	(60)	26.7%	(136)	(112)	21.4%
Other income	32	6	>100%	38	1	>100%
Other expenses	(71)	(16)	>100%	(87)	(20)	>100%
Foreign exchange differences	72	1	>100%	73	10	>100%
Cash flow hedges reclassified to profit or loss	(37)	(36)	2.8%	(73)	(73)	—
Income before income tax	322	125	>100%	447	109	>100%
Income tax expense	(66)	(30)	>100%	(96)	(17)	>100%
Net income	256	95	>100%	351	92	>100%
Net income attributable to						
- Rosneft shareholders	228	81	>100%	309	75	>100%
- non-controlling interests	28	14	100%	42	17	>100%

¹ Net income for 6M 2017 is adjusted due to allocation of the final purchase price of Bashneft assets in 2017.

Business Segments and Intersegment Sales

Most of all Rosneft's operations and assets are located in the Russian Federation. As geographical regions of the Russian Federation have similar economic and legal characteristics, Rosneft does not present geographical segments separately. Rosneft also carries out projects outside Russia, including exploration and production projects in Norway, United Arab Emirates, Brazil, Vietnam, Venezuela, Kurdistan, Egypt and also stakes in refineries in Germany and Belarus.

Operating Segments

As at the reporting date, the activities of Rosneft are divided into two main operating segments based on the nature of their operations:

- *Exploration and production (Upstream)*. Geological exploration and development of fields and crude oil and gas production both onshore and offshore in Russia and abroad, and internal oilfield service companies;
- *Refining and distribution (Downstream)*. Refining of crude oil, as well as the purchase, transportation, sale of crude oil and petroleum products and petrochemicals to the third parties in Russia and abroad;
- Other activities form the "*Corporate*" segment and include banking, financial services and other corporate services.

Intersegment Sales

Intercompany sales present operational activity of segments as if the segments operate separately from each other within the vertically integrated company using transfer prices for settlements between segments.

For the estimation of upstream revenues within vertically integrated company the sale price of Upstream (and the purchase price of Downstream) was recalculated using the export market price minus transportation cost, minus export duty, dispatches and other expenses relating to current sales. The price is established at oil gathering facility (point of sales) or connection point to Gasprom transportation system where Upstream dispatches the oil and gas to Downstream. All intercompany operations, including transactions from internal oilfield service companies and corporate service companies, are eliminated at the consolidated level.

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Upstream Operating Results

The segment includes Rosneft Group companies that provide operating services, the independent enterprises that produce oil, gas and gas condensate in Russia and abroad, the joint ventures and exploration units in Russia and abroad, oil service companies. The segment includes revenues generated by the transfer of oil, gas and NGL to the Downstream segment for subsequent sales to third parties and all operating costs associated with production and exploration, and also revenues and costs of oil service companies that provide services to the Group companies. The results are set in the table below:

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June 30, 2018	March 31, 2018		2018	2017	
Operational results						
Hydrocarbon production (th. boe per day)	5,706	5,708	(0.0)%	5,706	5,744	(0.7)%
Crude oil and NGL production (th. barrels per day)	4,604	4,566	0.8%	4,585	4,593	(0.2)%
Gas production (th. boe per day)	1,102	1,142	(3.5)%	1,121	1,151	(2.6)%
Hydrocarbon production (mln boe) ¹	482.0	476.8	1.1%	958.8	964.9	(0.6)%
Hydrocarbon production (mln toe)	70.1	69.3	1.2%	139.4	140.3	(0.6)%
Financial results, RUB billions						
EBITDA	534	383	39.4%	917	583	57.3%
Capital expenditures ²	211	204	3.4%	415	356	16.6%
Upstream operating expenses	92.7	88.3	5.0%	181.0	170.3	6.3%
Indicators per boe						
EBITDA, RUB/boe ¹	1,071	778	37.7%	925	587	57.6%
Capital expenditures, RUB/boe	438	428	2.3%	433	369	17.3%
Upstream operating expenses, RUB/boe	192	185	3.8%	189	176	7.4%
Upstream operating expenses, USD/boe ³	3.1	3.3	(6.1)%	3.2	3.0	6.7%

¹Excluding effect of associates and joint ventures.

²Ref. to "Capital expenditures".

³Calculated using average monthly exchange rates of Bank of Russia for the reporting periods (Appendix 2).

Upstream EBITDA

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June 30, 2018	March 31, 2018		2018	2017	
Revenues and equity share in profits of associates and joint ventures	1,223	943	29.7%	2,166	1,457	48.7%
<i>Including equity share in profits of associates and joint ventures</i>	<i>18</i>	<i>12</i>	<i>50.0%</i>	<i>30</i>	<i>17</i>	<i>76.5%</i>
Expenses net of depreciation including	724	593	22.1%	1,317	970	35.8%
Upstream operating expenses ¹	93	88	5.0%	181	170	6.3%
General and administrative expenses	16	14	14.3%	30	27	11.1%
Hydrocarbon procurement costs ²	6	5	20.0%	11	21	(47.6)%
Pipeline tariffs and transportation costs and other costs ³	11	8	37.5%	19	20	(5.0)%
Exploration expenses	4	3	33.3%	7	6	16.7%
Taxes other than income tax	594	475	25.1%	1,069	726	47.2%
<i>Effect of prepayments offsetting</i>	<i>35</i>	<i>33</i>	<i>6.1%</i>	<i>68</i>	<i>96</i>	<i>(29.2)%</i>
EBITDA	534	383	39.4%	917	583	57.3%

¹Percentage is calculated based on the unrounded data.

²Starting from the first quarter of 2018 the part of gas trading activity was reclassified to Downstream operating segment.

³Other costs include revision of ecological reserves of RUB 0.4 billion and RUB 0.8 billion in the second and first quarters of 2018, respectively; and RUB 1.2 billion and RUB 1.1 billion in the first half of 2018 and 2017, respectively.

Operating indicators

Production of Crude Oil and NGL

Rosneft has main fully consolidated production and development enterprises, which produce crude oil in Western Siberia, Eastern Siberia, Timan Pechora, Central Russia, Southern part of European Russia and the Russian Far East. The Company also has a 20% stake in the Sakhalin-1 project and a 50% stake in JSC "Tomskneft" VNK, both accounted for using proportionate consolidation method. In addition, Rosneft participates in major production joint ventures accounted for using the equity method: Slavneft – 49.94%, Udmurtneft – 49.57% and Messoyakhaneftegaz – 50.0%. The Company also participates in international projects in Vietnam, Venezuela and Egypt.

The following table sets forth Rosneft's crude oil and NGL production:

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June 30, 2018	March 31, 2018		2018	2017	
	(million of barrels)			(million of barrels)		
RN-Yuganskneftegaz (Western Siberia)	128.4	127.0	1.1%	255.4	235.6	8.4%
Projects of the Vankor group (Eastern Siberia)	40.7	39.3	3.6%	80.0	84.1	(4.9)%
Samotlorneftegaz (Western Siberia)	36.0	35.5	1.4%	71.5	71.1	0.6%
Bashneft-Dobycha (Central Russia)	30.0	30.1	(0.3)%	60.1	61.3	(2.0)%
Orenburgneft (Central Russia)	27.0	26.6	1.5%	53.6	58.7	(8.7)%
Samaraneftegaz (Central Russia)	21.9	21.2	3.3%	43.1	46.8	(7.9)%
RN-Uvatneftegaz (Western Siberia)	19.6	19.6	–	39.2	38.8	1.0%
Verkhnechonskneftegaz (Eastern Siberia)	14.9	15.4	(3.2)%	30.3	30.5	(0.7)%
Varyeganneftegaz (Western Siberia)	10.5	10.0	5.0%	20.5	23.2	(11.6)%
RN-Nyaganneftegaz (Western Siberia)	9.7	8.8	10.2%	18.5	22.2	(16.7)%
RN-Purneftegaz (Western Siberia)	8.5	8.0	6.3%	16.5	18.9	(12.7)%
Tomskneft (Western Siberia)	8.0	8.0	–	16.0	17.5	(8.6)%
RN-Severnaya Neft (Timan Pechora)	5.5	5.3	3.8%	10.8	12.3	(12.2)%
Offshore projects (Far East) ¹	4.3	5.0	(14.0)%	9.3	12.6	(26.2)%
Taas-Yuryakh (Far East)	4.9	3.9	25.6%	8.8	4.2	>100%
Vostsibneftegaz (Eastern Siberia)	3.7	4.3	(14.0)%	8.0	1.2	>100%
Sorovskneft (Western Siberia)	2.8	2.8	–	5.6	8.4	(33.3)%
Bashneft-Polyus (Timan Pechora) ²	2.0	2.0	–	4.0	9.6	(58.3)%
Kondaneft (Western Siberia)	2.5	1.5	66.7%	4.0	–	–
Other	9.2	8.8	4.5%	18.0	18.1	(0.6)%
Crude oil and NGL production by fully and proportionately consolidated enterprises	390.1	383.1	1.8%	773.2	775.1	(0.2)%
Slavneft (Western and Eastern Siberia)	12.7	12.1	5.0%	24.8	26.8	(7.5)%
Udmurtneft (Central Russia)	5.6	5.5	1.8%	11.1	11.1	–
Messoyakhaneftegaz (Western Siberia)	4.0	3.7	8.1%	7.7	5.2	48.1%
Other	6.6	6.5	1.5%	13.1	13.1	–
Total share in production of associates and JV	28.9	27.8	4.0%	56.7	56.2	0.9%
Total crude oil and NGL production	419.0	410.9	2.0%	829.9	831.3	(0.2)%
Daily crude oil and NGL production (th. barrels per day)	4,604	4,566	0.8%	4,585	4,593	(0.2)%

¹Net of royalty and government share.

²Refers to 100% consolidated share in production.

In the second quarter of 2018, daily crude oil and NGL production amounted to 4.6 mln barrels per day, or 0.8% growth, compared with the first quarter of 2018 in connection with the work on determining the actual limits and rates of recovery of former production levels ahead of the easing of restrictions under the Agreement OPEC+.

Daily crude oil and NGL production (decrease of 0.2% compared with the first half of 2017) is constrained by the Company's production cut obligations under the OPEC + Agreement.

Taking into account the achieved agreement at the end of June 2018 on the partial recovery of crude oil and NGL production under the OPEC+ Agreement, as of the beginning of July the Company was able to quickly increase production to the level of the beginning of the imposed constraints (October 2016), which demonstrates the correctness of the strategic choice of assets to limit production. The Company has additional capacity to increase production volumes, which is due to the availability of necessary technological capabilities.

In the first half of 2018 the development drilling was at about 6 mln meters with in-house drilling share remaining at 60%. The number of new wells commissioned increased by 22% with horizontal wells share up to 41% and the number of new horizontal wells with multistage fracs jumping by more than 64% compared to the first half of 2017.

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Production of Gas

The table below sets forth Rosneft's used gas¹ production:

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June 30, 2018	March 31, 2018		2018	2017	
	bcm			bcm		
Sibneftegas (Western Siberia)	3.02	3.04	(0.7)%	6.06	6.23	(2.7)%
Projects of the Vankor group (Eastern Siberia) ²	1.88	1.78	5.6%	3.66	4.29	(14.7)%
Rospan International (Western Siberia)	1.68	1.67	0.6%	3.35	3.15	6.3%
Samotlorneftegaz (Western Siberia)	1.48	1.52	(2.6)%	3.00	2.96	1.4%
RN-Purneftegaz (Western Siberia)	1.35	1.37	(1.5)%	2.72	3.01	(9.6)%
RN-Yuganskneftegaz (Western Siberia)	1.10	1.20	(8.3)%	2.30	2.15	7.0%
Varyeganneftegaz (Western Siberia)	0.99	1.04	(4.8)%	2.03	1.92	5.7%
Offshore projects (Far East) ^{2,3}	0.66	1.09	(39.4)%	1.75	2.14	(18.2)%
RN-Krasnodarneftegaz (Southern Russia)	0.49	0.54	(9.3)%	1.03	1.35	(23.7)%
RN-Nyaganneftegaz (Western Siberia)	0.39	0.37	5.4%	0.76	0.88	(13.6)%
Orenburgneft (Central Russia)	0.36	0.36	–	0.72	0.92	(21.7)%
Zohr project (Egypt)	0.40	0.16	>100%	0.56	–	–
Tomskneft (Western Siberia)	0.21	0.25	(16.0)%	0.46	0.45	2.2%
Rosneft Vietnam B.V. (Vietnam)	0.21	0.23	(8.7)%	0.44	0.35	25.7%
Verkhnechonskneftegaz (Eastern Siberia)	0.27	0.06	>100%	0.33	0.11	>100%
Bashneft-Dobycha (Central Russia) ²	0.12	0.13	(7.7)%	0.25	0.26	(3.8)%
Samaraneftegaz (Central Russia)	0.12	0.13	(7.7)%	0.25	0.22	13.6%
RN-Sakhalinmorneftegaz (Far East)	0.08	0.10	(20.0)%	0.18	0.16	12.5%
RN-Uvatneftegaz (Western Siberia)	0.08	0.07	14.3%	0.15	0.12	25.0%
RN-Severnaya Neft (Timan Pechora)	0.04	0.05	(20.0)%	0.09	0.11	(18.2)%
Other	0.17	0.22	(22.7)%	0.39	0.39	–
Total gas production by fully and proportionately consolidated enterprises	15.10	15.38	(1.8)%	30.48	31.17	(2.2)%
Purgaz (Western Siberia)	1.19	1.32	(9.8)%	2.51	2.66	(5.6)%
Slavneft (Western and Eastern Siberia)	0.12	0.11	9.1%	0.23	0.23	–
Other	0.05	0.06	(16.7)%	0.11	0.14	(21.4)%
Total share in production of associates and JV	1.36	1.49	(8.7)%	2.85	3.03	(5.9)%
Total gas production	16.46	16.87	(2.4)%	33.33	34.20	(2.5)%
Natural gas	8.05	7.97	1.0%	16.02	15.77	1.6%
Associated gas	8.41	8.90	(5.5)%	17.31	18.43	(6.1)%
Daily gas production (mcm per day)	180.9	187.4	(3.5)%	184.1	189.0	(2.6)%

¹ Production volume equals extracted volume minus flared volume and gas used for NGL production. Gross gas production amounted to 18.1 bcm in the second quarter of 2018, 18.5 bcm in the first quarter of 2018 and 36.6 bcm in the first half of 2018 and 2017.

² Including gas injection to maintain reservoir pressure.

³ Net of royalty and government share.

Gas production in the second quarter of 2018 amounted to 16.46 bcm, decreasing by 2.4% compared with the first quarter of 2018. The decrease in production was mainly due to seasonal factor and scheduled preventive maintenance in the second quarter of 2018.

The decrease in gas production in the first half of 2018 of 2.5% compared with the same period of 2017 was mainly due to a reduction of associated petroleum gas production on the fields with developing infrastructure and on a number of other assets based on the conditions of economic efficiency of development and taking into account external constraints.

Financial indicators

Equity share in financial results of upstream associates and joint ventures

The equity share in financial results of upstream associates and joint ventures was RUB 18 billion in the second quarter of 2018, which is mainly due to favourable dynamics of oil prices and, as a result, the growth of share in profits of associates and joint ventures in Russia. In the first quarter of 2018, the equity share in the financial results of upstream associates and joint ventures was RUB 12 billion of profit.

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Considerable income growth in the first half of 2018 compared with the same period of 2017 is mainly due to improved macroeconomic conditions and increased production volumes of Messoyakhneftegaz.

Upstream production and operating expenses

Upstream production and operating expenses include materials and supplies, equipment maintenance and repairs, wages and salaries, activities to enhance oil and gas recovery, procurement of fuel and lubricants, electricity and other costs of Rosneft consolidated exploration and production units.

In the second quarter of 2018 compared with the first quarter of 2018 an increase in the upstream production and operating expenses of 5.0% (an increase of 3.8% per boe) was mainly due to seasonal nature of geological and technical measures and increased cost of repairs, maintenance of equipment and other oilfield services.

Upstream production and operating expenses increased in the first half of 2018 compared with the same period of 2017 by 6.3% (an increase of 7.4% per boe), which is mainly due to an increase in electricity tariffs, the cost of repair and maintenance of a growing stock of wells, and material and transport costs.

Exploration Expenses¹

Exploration expenses mainly relate to exploratory drilling, seismic and other geological and geophysical works. Exploratory drilling costs are generally capitalized, if commercial reserves of crude oil and gas are discovered or expensed in the current period in the event of unsuccessful exploration results.

Exploration expenses in the second quarter of 2018 and in the first quarter of 2018 were RUB 3 billion and RUB 2 billion, respectively. In the first half of 2018 exploration expenses remained at the level of the same period in 2017 and amounted to RUB 5 billion.

Mineral extraction tax

The increase in MET expense in the second quarter of 2018 compared with the first quarter of 2018 was mainly due to enacted MET rate increase of 23.7%, caused by higher Urals price (by 20.7% in RUB terms).

The following table sets actual mineral extraction tax rates for the periods analysed:

	For 3 months ended		change %	For 6 months ended June 30,		change %
	June 30, 2018	March 31, 2018		2018	2017	
	(thousand RUB, except %)					
Average enacted oil mineral extraction tax rate (per tonne)	12.87	10.41	23.7%	11.64	7.49	55.4%
Actual mineral extraction tax expense per tonne of oil produced	10.88	8.57	27.0%	9.74	6.49	50.1%
Actual mineral extraction tax expense per tonne of oil equivalent produced ¹	8.87	6.95	27.6%	7.92	5.28	50.0%
	(RUB, except %)					
Average actual gas extraction tax rate per thousand cubic meters	548	549	(0.2)%	549	517	6.2%
Actual extraction tax rate on gas condensate ² per tonne	4,477	3,961	13.0%	4,217	3,539	19.2%

¹Including consolidated oil and gas volumes

²The main volumes of condensate assessed at the MET rate for gas condensate are extracted on fields of Rospan, for which the rates are set in the table

The actual mineral extraction tax rate is lower than generally established tax rates for the analyzed periods primarily due to tax exemptions, which are active in the form of zero rates and reduced extraction tax rate by "Dm" coefficient, which characterizes complexity of crude oil production at a particular oil field (See Attachment 1).

¹ Net of intercompany turnover of RUB 1 billion and RUB 1 billion in the second quarter of 2018 and in the first quarter of 2018, respectively.

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Downstream Operating Results

The segment includes Group companies that provide services for oil and gas processing, petrochemical production in Russia and abroad, joint ventures, sales units of oil, gas and petroleum products to counterparties in Russia and abroad. The segment includes revenue generated from the sale of oil, gas, petrochemical products and petroleum products to third parties, and all operating costs associated with processing, trading and logistics.

The results set in the table below:

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June 30, 2018	March 31, 2018		2018	2017	
Operational results, mln tonne						
Crude oil processing at refineries	28.12	27.57	2.0%	55.69	56.02	(0.6)%
<i>Processing at Company's own refineries in Russia</i>	23.07	22.83	1.1%	45.90	46.32	(0.9)%
<i>Processing at Company's own refineries outside Russia</i>	3.04	2.87	5.9%	5.91	5.83	1.4%
<i>Processing at Associates' refineries</i>	2.01	1.87	7.5%	3.88	3.87	0.3%
Financial results, RUB billion						
EBITDA	42	15	>100%	57	86	(33.7)%
Capital expenditures of refineries ¹	11	10	10.0%	21	26	(19.2)%
Operating expenses of processing in Russia	29.3	28.4	3.2%	57.7	59.4	(2.9)%
Operating expenses of processing outside Russia	7.4	5.8	27.6%	13.2	9.3	41.9%
Indicators per tonne of the output, RUB per tonne²						
EBITDA ³	1,532	568	>100%	1,062	1,572	(32.4)%
Capital expenditure of refineries	421	389	8.2%	405	499	18.8%
Operating expenses for processing in Russia	1,270	1,244	2.1%	1,257	1,282	(2.0)%
Operating expenses for processing outside Russia	2,434	2,021	20.4%	2,234	1,595	40.1%

¹Refer to "Capital expenditures".

²Calculated from unrounded data.

³Excluding effect of associates

Downstream EBITDA

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June 30, 2018	March 31, 2018		2018	2017	
RUB billion						
Revenues and equity share in profits of associates and joint ventures	2,061	1,735	18.8%	3,796	2,855	33.0%
<i>Including equity share in profits of associates and joint ventures</i>	2	0.4	>100%	2	4	(50.0)%
Expenses net of depreciation including	2,019	1,720	17.4%	3,739	2,769	35.0%
Operating expenses at refineries, cost of additives and materials procured for processing	43	41	4.9%	84	79	6.3%
Operating expenses of retail companies	14	12	16.7%	26	24	8.3%
Cost of purchased oil, gas, petroleum products and refining costs including intersegment turnover	1,503	1,180	27.4%	2,683	1,850	45.0%
Administrative expenses, including allowance for expected credit losses	16	10	60.0%	26	18	44.4%
Pipeline tariffs and transportation costs and other costs	151	159	(5.0)%	310	295	5.1%
Taxes other than income tax	95	94	1.1%	189	172	9.9%
Export customs duty	240	215	11.6%	455	326	39.6%
<i>Effect of intragroup oil products inventory and others (income)/expense</i>	(21)	6	—	(15)	—	—
EBITDA	20	18	11.1%	38	91	(58.2)%
<i>Effect of intragroup crude oil inventory (income)/expense</i>	(22)	3	—	(19)	5	—
EBITDA adjusted¹	42	15	>100%	57	86	(33.7)%

¹Adjusted for the effect from intragroup crude oil inventory.

Operating indicators

Petroleum Product Output

Rosneft processes produced and procured crude oil at its refineries: the Tuapse refinery on the Black Sea coast in the South of Russia, the Komsomolsk refinery in the Russian Far East, the Achinsk and Angarsk refineries in Eastern Siberia, the Kuibyshevsk, Novokuibyshevsk and Syzran refineries in the Samara region, the Saratov and Ryazan refineries (the European part of Russia), Bashneft refineries and others. Rosneft also processes crude oil in Belarus and in Germany.

The following table sets forth Rosneft's crude oil processing and petroleum product output volumes:

	For 3 months ended		%	For 6 months ended June 30,		%
	June 30, 2018	March 31, 2018		2018	2017	
	mln of tonnes			mln of tonnes		
Crude oil processing at refineries in Russia ¹	25.08	24.70	1.5%	49.78	50.16	(0.8)%
Crude oil processing at refineries outside Russia	3.04	2.87	5.9%	5.91	5.86	0.9%
including crude oil processing in Germany ²	3.04	2.87	5.9%	5.91	5.83	1.4%
including crude oil processing in Belarus	0.00	0.00	–	0.00	0.03	(100.0)%
Total Group crude oil processing	28.12	27.57	2.0%	55.69	56.02	(0.6)%
Petroleum product output:						
High octane gasoline	3.54	3.66	(3.3)%	7.20	7.47	(3.6)%
Low octane gasoline	0.02	0.02	–	0.04	0.06	(33.3)%
Naphtha	1.51	1.57	(3.8)%	3.08	3.09	(0.3)%
Diesel	8.22	8.18	0.5%	16.40	16.52	(0.7)%
Fuel oil	5.87	5.65	3.9%	11.52	11.99	(3.9)%
Jet fuel	0.88	0.81	8.6%	1.69	1.58	7.0%
Petrochemicals	0.41	0.43	(4.7)%	0.84	0.80	5.0%
Other	3.77	3.57	5.6%	7.34	6.95	5.6%
Product output at Rosneft's refineries in Russia	24.22	23.89	1.4%	48.11	48.46	(0.7)%
Product output at refineries outside Russia	3.11	2.88	8.0%	5.99	5.86	2.2%
including crude oil output in Germany	3.11	2.88	8.0%	5.99	5.83	2.7%
including product output in Belarus	0.00	0.00	–	0.00	0.03	(100.0)%
Total Group product output	27.33	26.77	2.1%	54.10	54.32	(0.4)%

¹Including processing at YANOS refinery.

²Excluding additives received for processing.

Rosneft's total refinery throughput in Russia in the second quarter of 2018 increased and amounted to 25.08 mln tonnes. If compared to the first quarter of 2018 the increase is mainly due to the regulation of utilisation rate in terms of current demand.

In the second quarter of 2018, processing at the refineries in Germany increased by 5.9% in comparison with the first quarter of 2018 that is mainly caused by scheduled turnarounds in the first quarter of 2018.

In the first half of 2018 crude oil production at the German refineries increased by 1.4% if compared with the same period of 2017, mainly due to unscheduled turnarounds in the first quarter of 2017.

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Financial indicators

Revenues and equity share in profits of associates and joint ventures¹

Increase in revenues in RUB terms in the second quarter of 2018 compared with the first quarter of 2018 is mainly due to worldwide crude oil price growth (21% in RUB terms compared to the first quarter of 2018).

The table below presents revenues from sales of crude oil, gas, petroleum and petrochemical products and other revenues in billions of RUB²:

	For 3 months ended					For 6 months ended June 30,				
	June 30, 2018		March 31, 2018		% change	2018		2017		% change
	% of revenue		% of revenue			% of revenue		% of revenue		
RUB billion, except %										
Crude oil										
International Sales to non-CIS	868	42.0%	683	39.6%	27.1%	1,551	40.9%	1,051	37.4%	47.6%
Europe and other directions	447	21.6%	342	19.8%	30.7%	789	20.8%	606	21.6%	30.2%
Asia	421	20.4%	341	19.8%	23.5%	762	20.1%	445	15.8%	71.2%
International sales to CIS	55	2.7%	44	2.6%	25.0%	99	2.6%	68	2.4%	45.6%
Domestic sales	31	1.5%	29	1.7%	6.9%	60	1.6%	46	1.6%	30.4%
Total crude oil	954	46.2%	756	43.9%	26.2%	1,710	45.1%	1,165	41.4%	46.8%
Gas	50	2.4%	59	3.4%	(15.3)%	109	2.9%	106	3.8%	2.8%
Petroleum products										
International Sales to non-CIS	590	28.5%	499	28.9%	18.2%	1,089	28.8%	802	28.6%	35.8%
Europe and other directions	443	21.4%	390	22.6%	13.6%	833	22.0%	596	21.3%	39.8%
Asia	147	7.1%	109	6.3%	34.9%	256	6.8%	206	7.3%	24.3%
International Sales to CIS	38	1.8%	27	1.6%	40.7%	65	1.7%	43	1.5%	51.2%
Domestic sales	344	16.7%	311	18.1%	10.6%	655	17.3%	566	20.1%	15.7%
Wholesale	202	9.8%	194	11.3%	4.1%	396	10.5%	343	12.2%	15.5%
Retail	142	6.9%	117	6.8%	21.4%	259	6.8%	223	7.9%	16.1%
Sales of bunker fuel to end-users	22	1.1%	12	0.7%	83.3%	34	0.9%	25	0.9%	36.0%
Total petroleum products	994	48.1%	849	49.3%	17.1%	1,843	48.7%	1,436	51.1%	28.3%
Sales of LNG	–	–	–	–	–	–	–	3	0.1%	(100)%
Petrochemical products	27	1.3%	25	1.5%	8.0%	52	1.4%	41	1.5%	26.8%
International sales	11	0.5%	10	0.6%	10.0%	21	0.6%	15	0.6%	40.0%
Domestic sales	16	0.8%	15	0.9%	6.7%	31	0.8%	26	0.9%	19.2%
Sales of petroleum products, petrochemicals and LNG	1,021	49.4%	874	50.8%	16.8%	1,895	50.1%	1,480	52.7%	28.0%
Support services and other revenues	20	1.0%	21	1.2%	(4.8)%	41	1.1%	36	1.3%	13.9%
Equity share in profits of associates and joint ventures	20	1.0%	12	0.7%	66.7%	32	0.8%	22	0.8%	45.5%
Total revenues and equity share in profits of associates and joint ventures	2,065	100.0%	1,722	100.0%	19.9%	3,787	100.0%	2,809	100.0%	34.8%

¹Under IFRS consolidated financial statements.

²The difference between percentages presented in the above table and other sections is caused by rounding.

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Sales Volumes

The table below analyses crude oil, gas, petroleum and petrochemical product sales volumes:

	For 3 months ended					For 6 months ended June 30,				
	June 30, 2018		March 31, 2018		% change	2018		2017		% change
	mln bbl	% of total volume	mln bbl	% of total volume		mln bbl	% of total volume	mln bbl	% of total volume	
Crude oil										
International Sales to non-CIS	208.8	46.6%	200.7	45.8%	4.0%	409.5	46.2%	411.0	46.6%	(0.4)%
Europe and other directions	105.9	23.6%	100.7	23.0%	5.2%	206.6	23.3%	237.7	26.9%	(13.1)%
Asia	102.9	23.0%	100.0	22.8%	2.9%	202.9	22.9%	173.3	19.7%	17.1%
International Sales to CIS	16.3	3.6%	16.3	3.7%	–	32.6	3.7%	31.8	3.6%	2.5%
Domestic	9.6	2.2%	11.1	2.5%	(13.5)%	20.7	2.3%	22.2	2.5%	(6.8)%
Total crude oil	234.7	52.4%	228.1	52.0%	2.9%	462.8	52.2%	465.0	52.7%	(0.5)%
	mln tonnes		mln tonnes			mln tonnes		mln tonnes		
International Sales to non-CIS	28.2	46.6%	27.1	45.8%	4.0%	55.3	46.2%	55.5	46.6%	(0.4)%
Europe and other directions	14.3	23.6%	13.6	23.0%	5.2%	27.9	23.3%	32.1	26.9%	(13.1)%
Asia	13.9	23.0%	13.5	22.8%	2.9%	27.4	22.9%	23.4	19.7%	17.1%
International Sales to CIS	2.2	3.6%	2.2	3.7%	–	4.4	3.7%	4.3	3.6%	2.5%
Domestic sales	1.3	2.2%	1.5	2.5%	(13.5)%	2.8	2.3%	3.0	2.5%	(6.8)%
Total crude oil	31.7	52.4%	30.8	52.0%	2.9%	62.5	52.2%	62.8	52.7%	(0.5)%
Petroleum products										
International Sales to non-CIS	16.8	27.8%	16.9	28.5%	(0.6)%	33.7	28.1%	33.3	28.1%	1.2%
Europe and other directions	12.6	20.8%	13.2	22.3%	(4.5)%	25.8	21.5%	24.0	20.3%	7.5%
Asia	4.2	7.0%	3.7	6.2%	13.5%	7.9	6.6%	9.3	7.8%	(15.1)%
International Sales to CIS	1.0	1.7%	0.9	1.5%	11.1%	1.9	1.6%	1.7	1.4%	11.8%
Domestic sales	9.3	15.4%	9.4	15.9%	(1.1)%	18.7	15.6%	18.5	15.5%	1.1%
Wholesale	6.1	10.1%	6.6	11.2%	(7.6)%	12.7	10.6%	12.9	10.8%	(1.6)%
Retail	3.2	5.3%	2.8	4.7%	14.3%	6.0	5.0%	5.6	4.7%	7.1%
Sales of bunker fuel to end-users	0.9	1.5%	0.5	0.8%	80.0%	1.4	1.2%	1.3	1.1%	7.7%
Total petroleum products	28.0	46.4%	27.7	46.7%	1.1%	55.7	46.5%	54.8	46.1%	1.6%
Sales of LNG	–	–	–	–	–	–	–	0.1	0.1%	(100)%
Petrochemical products	0.7	1.2%	0.8	1.3%	(12.5)%	1.5	1.3%	1.3	1.1%	15.4%
International sales	0.3	0.5%	0.3	0.5%	–	0.6	0.5%	0.5	0.4%	20.0%
Domestic sales	0.4	0.7%	0.5	0.8%	(20.0)%	0.9	0.8%	0.8	0.7%	12.5%
Total crude oil and products, LNG	60.4	100.0%	59.3	100.0%	1.9%	119.7	100.0%	119.0	100.0%	0.6%
	bcm		bcm			bcm		bcm		
Gas sales volumes	14.39		16.56		(13.1)%	30.95		31.90		(3.0)%

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Average Sales Prices

The following table sets forth Rosneft's average export and domestic prices of crude oil, gas, petroleum products and petrochemical products (the average sales prices may differ from official market prices provided by specialized agencies due to different quality of products and sales terms)*:

	For 3 months ended				% change	For 6 months ended June 30,				% change
	June 30, 2018		March 31, 2018			2018		2017		
	th.RUB/ barrel	th.RUB/ tonne	th.RUB/ barrel	th.RUB/ tonne		th.RUB/ barrel	th.RUB/ tonne	th.RUB/ barrel	th.RUB/ tonne	
Average prices on foreign markets										
Crude oil, non-CIS	4.32	32.0	3.59	26.6	20.3%	3.97	29.4	2.80	20.7	42.0%
Europe and other directions**	4.21	31.2	3.49	25.8	20.9%	3.86	28.6	2.70	20.1	42.3%
Asia**	4.44	32.9	3.71	27.5	19.6%	4.08	30.2	2.93	21.7	39.2%
Crude oil, CIS	3.34	24.7	2.71	20.0	23.5%	3.02	22.4	2.15	15.9	40.9%
Petroleum products, non- CIS		35.4		29.7	19.2%		32.6		24.4	33.6%
Europe and other directions		35.3		29.7	18.9%		32.5		25.2	29.0%
Asia		35.9		29.7	20.9%		33.0		22.3	48.0%
Petroleum products, CIS		36.4		30.5	19.3%		33.7		24.7	36.4%
Sales of LNG		–		–	–		–		19.4	(100)%
Petrochemical products		38.2		34.5	10.7%		36.3		28.8	26.0%
Average domestic prices										
Crude oil	3.27	24.2	2.58	19.1	26.7%	2.93	21.7	2.05	15.2	42.8%
Petroleum products		37.1		33.1	12.1%		35.1		30.7	14.3%
Wholesale		33.3		29.4	13.3%		31.3		26.6	17.7%
Retail		44.1		41.7	5.8%		43.0		40.1	7.2%
Gas (th. RUB./the cubic meter)***		3.22		3.46	(6.9)%		3.35		3.29	1.8%
Petrochemical products		37.0		32.0	15.6%		34.4		31.8	8.2%
Sales of bunker fuel to end-users		26.6		21.6	23.1%		24.6		19.3	27.5%

* Average price is calculated from unrounded figures.

** Price excludes the effect of prepayments offsetting under prepaid long-term crude oil supply contracts and revenues from crude oil sales to Transneft (RUB 38 billion and RUB 30 billion in the second quarter of 2018 and in the first quarter of 2018, respectively; RUB 51 billion in the first half of 2017).

*** Including gas sales outside Russian Federation average gas prices were 3.50 th. RUB./th. cubic meter in the second quarter of 2018 and 3.57 th. RUB./th. cubic meter in the first quarter of 2018; 3.54 th. RUB./th. cubic meter and 3.32 th. RUB./th. cubic meter in the first half of 2018 and 2017, respectively.

International Crude Oil Sales to non-CIS

Revenue growth of international crude oil sales to non-CIS countries in the second quarter of 2018 compared with the first quarter of 2018 was due to the 20.3% upturn in average price or RUB 154 billion and growth of sales volumes by 4.0% (favorable impact on revenue of RUB 31 billion).

Revenue growth of international crude oil sales to non-CIS countries in the first half of 2018 compared with the same period of 2017 was mostly due to the growth of average sales price of 42.0% (positive impact on revenue of RUB 472 billion).

International Crude Oil Sales to CIS

Revenue growth of international crude oil sales to CIS countries in the second quarter of 2018 compared with the first quarter of 2018 was due to growth of average sales price of 23.5% (favorable impact on revenues of RUB 11 billion).

Revenue from international crude oil sales to CIS countries increased in the first half of 2018 compared with the same period of 2017 that was due to growth in average sales price of 40.9% (positive impact on revenues of RUB 29 billion) and was accompanied by sales volume growth of 2.5% (favorable impact on revenue of RUB 2 billion).

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Domestic Sales of Crude Oil

Revenue growth of domestic sales of crude oil in the second quarter of 2018 compared with the first quarter of 2018 was due to upturn of average sales price of 26.7% (positive impact on revenue of RUB 6 billion), was partially offset by volume downturn of 13.5% (unfavorable impact on revenue of RUB 4 billion).

Revenue upturn of domestic sales of crude oil in the first half of 2018 compared with the same period of 2017 is mainly attributable to upturn of average sales price of 42.8% (positive impact on revenue of RUB 17 billion) and was partially offset by downturn in crude oil sales volumes of 6.8% (negative effect on revenues of RUB 3 billion).

International Petroleum Product Sales to Non-CIS

The table below sets forth Rosneft's revenue, volume and average price per tonne of petroleum products sold to non-CIS countries in the second and first quarters of 2018*:

	For 3 months ended						% change		
	June 30, 2018			March 31, 2018					
	RUB billion	mln of tonnes	Average price th.RUB/tonne	RUB billion	mln of tonnes	Average price th.RUB/tonne	RUB billion	mln of tonnes	Average price th.RUB/tonne
High octane gasoline	6	0.1	42.1	9	0.3	35.5	(33.3)%	(66.7)%	18.6%
Naphtha	61	1.6	38.7	48	1.5	31.5	27.1%	6.7%	22.9%
Diesel (Gasoil)	147	3.7	38.9	135	4.3	32.0	8.9%	(14.0)%	21.6%
Fuel oil	156	6.3	26.3	130	6.1	21.4	20.0%	3.3%	22.9%
Other	6	0.2	35.0	7	0.2	33.7	(14.3)%	–	3.9%**
Petroleum products exported to non-CIS	376	11.9	32.2	329	12.4	26.8	14.3%	(4.0)%	20.1%
Petroleum products sold from German refineries	141	2.8	49.5	114	2.7	42.7	23.7%	3.7%	15.9%
Petroleum products bought and sold outside Russia	73	2.1	34.5	56	1.8	30.5	30.4%	16.7%	13.1%
Trading of petroleum products outside Russia	214	4.9	43.1	170	4.5	37.8	25.9%	8.9%	14.0%
Total	590	16.8	35.4	499	16.9	29.7	18.2%	(0.6)%	19.2%

*Average price is calculated from unrounded figures.

**Change in average price was caused by product mix.

Revenue growth of the international sales of petroleum products to non-CIS countries in the second quarter of 2018 compared with the first quarter of 2018 was due to upturn in average price up to 19.2% (positive impact on revenues of RUB 95 billion) and was partially offset by decrease in sales volumes of 0.6% (unfavorable impact on revenues of RUB 2 billion).

The table below sets forth Rosneft's revenues, volume and average price per tonne of petroleum products sold to non-CIS countries in the first half of 2018 and 2017*:

	For 6 months ended June 30,						% change		
	2018			2017					
	RUB billion	million of tonnes	Average price th.RUB/tonne	RUB billion	million of tonnes	Average Price th.RUB/tonne	RUB billion	million of tonnes	Average price th.RUB/tonne
High octane gasoline	15	0.4	37.6	11	0.3	34.7	36.4%	33.3%	8.4%
Naphtha	109	3.1	35.1	82	3.1	26.3	32.9%	–	33.5%
Diesel (Gasoil)	282	8.0	35.2	224	8.7	25.8	25.9%	(8.0)%	36.4%
Fuel oil	286	12.4	23.9	224	13.2	17.7	27.7%	(6.1)%	35.0%
Other	13	0.4	33.7	12	0.4	27.8	8.3%	–	21.2%
Petroleum products exported to non-CIS	705	24.3	29.4	553	25.7	21.9	27.5%	(5.4)%	34.2%
Petroleum products sold from German refineries	255	5.5	46.2	188	5.0	37.9	35.6%	10.0%	21.9%
Petroleum product purchased and sold outside Russia	129	3.9	32.6	61	2.6	23.4	>100%	50.0%	39.3%
Trading of petroleum products outside Russia	384	9.4	40.5	249	7.6	32.9	54.2%	23.7%	23.1%
Total	1,089	33.7	32.6	802	33.3	24.4	35.8%	1.2%	33.6%

*Average price is calculated based on the unrounded figures.

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Revenue from sales of petroleum products to non-CIS countries increase in the first half of 2018 compared with the same period of 2017 was mainly attributable to average price upturn of 33.6% (favorable impact on revenues of RUB 273 billion), and was accompanied by sales volumes increase of 1.2% (favorable impact on revenues of RUB 14 billion).

Growth in sales of petroleum products purchased and sold outside Russia resulted from an upturn in trading activity of the foreign division of the Company.

International Petroleum Product Sales to CIS

Revenue decrease in the international sales of petroleum products to CIS countries in the second quarter of 2018 compared with the first quarter of 2018 attributable to average price upturn of 19.3% (favorable impact on revenues of RUB 7 billion) and was accompanied to the upturn in sales volumes of 11.1% (favorable impact on revenues of RUB 4 billion).

Revenue from international sales of petroleum products to CIS countries increased in the first half of 2018 compared with the same period of 2017 that was mainly attributable to average price upturn of 36.4% (favourable impact on revenues of RUB 17 billion), and sales volumes growth of 11.8% (favorable impact on revenues of RUB 5 billion).

Domestic Sales of Petroleum Products

The table below sets forth Rosneft's revenue, volume and average price per tonne of petroleum products sold in Russia in the second and first quarters of 2018*:

	For 3 months ended						% change		
	June 30, 2018			March 31, 2018					
	RUB billion	mln of tonnes	Average price th. RUB/tonne	RUB billion	mln of tonnes	Average price th. RUB/tonne	RUB billion	mln of tonnes	Average price th. RUB/tonne
High octane gasoline	148	3.4	44.2	135	3.4	39.4	9.6%	–	12.2%
Diesel (Gasoil)	133	3.2	41.4	120	3.1	39.3	10.8%	3.2%	5.3%
Fuel oil	7	0.6	12.9	11	0.9	11.6	(36.4)%	(33.3)%	11.2%
Jet fuel	36	0.8	41.1	29	0.8	37.9	24.1%	–	8.4%
Other	20	1.3	15.8	16	1.2	13.2	25.0%	8.3%	19.7%
Total	344	9.3	37.1	311	9.4	33.1	10.6%	(1.1)%	12.1%

*Average price is calculated from unrounded figures.

Revenue from sales of petroleum products on the domestic market increased in the second quarter of 2018 compared with the first quarter of 2018 due to increase in average price up to 12.1% (positive impact on revenues of RUB 36 billion), which was partially offset by the downturn in sales volumes of 1.1% (unfavorable impact on revenues of RUB 3 billion).

The table below sets forth Rosneft's revenue, volume and average price per tonne of petroleum products sold in Russia in the first half of 2018 and 2017*:

	For 6 months ended June 30,						% change		
	2018			2017					
	RUB billion	million of tonnes	Average price th.RUB/tonne	RUB billion	million of tonnes	Average price th.RUB/tonne	RUB billion	million of tonnes	Average price th.RUB/tonne
High octane gasoline	283	6.8	41.8	293	7.6	38.9	(3.4)%	(10.5)%	7.5%
Diesel (Gasoil)	253	6.3	40.4	184	5.5	33.3	37.5%	14.5%	21.3%
Fuel oil	18	1.5	12.1	15	1.5	10.3	20.0%	0.0%	17.5%
Jet fuel	65	1.6	39.7	44	1.5	29.6	47.7%	6.7%	34.1%
Other	36	2.5	14.5	30	2.4	12.4	20.0%	4.2%	16.9%
Total	655	18.7	35.1	566	18.5	30.7	15.7%	1.1%	14.3%

*Average price is calculated from unrounded figures.

Revenue from sales of petroleum products on the domestic market increased in the first half of 2018 compared with the same period of 2017 due to sales volume growth of 1.1% (favorable effect on revenue of RUB 6 billion) and average sales price growth of 14.3% (favorable effect on revenue of RUB 83 billion).

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Sales of bunker fuel

The Company sells bunker fuel (fuel oil, low-viscosity marine fuel and diesel fuel) in the seaports (the Far East, the North, the North West and the South of the European part of Russia) and river ports (the Volga-Don basin and in the rivers of Siberia) of the Russian Federation and in the ports outside the Russian Federation.

Revenues from sales of bunker fuel in the second quarter of 2018 compared with the first quarter of 2018 increased mainly due to seasonal growth of sales volume by 80.0% (favorable effect on revenue of RUB 10 billion).

Revenues growth of sales of bunker fuel in the first half of 2018 compared with the same period of 2017 was due to average sales price upturn of 27.5% (favorable effect on revenue of RUB 7 billion) and growth of sales volume by 7.7% (favorable effect on revenue of RUB 2 billion)

Petrochemical Products Sales

Petrochemical products sales volumes from the German refineries amounted to 0.13 mln tonnes and 0.14 mln tonnes in the second and first quarters of 2018, respectively.

In the second quarter of 2018 compared with the first quarter of 2018 international revenues increased due to upturn in average sales price by 10.7% (positive impact on revenues of RUB 1 billion). Domestic sales of petrochemical products in the second quarter of 2018 compared with the first quarter of 2018 increased by 6.7% and amounted to RUB 16 billion.

In the first half of 2018 compared with the same period of 2017 international revenues increased due to upturn in average sales price by 26.0% (positive impact on revenues of RUB 3 billion) and growth of sales volume by 20.0% (favorable effect on revenue of RUB 3 billion). Domestic sales of petrochemical products in the first half of 2018 compared with the first half of 2017 increased mainly due to increase in sales volumes of 12.5% (positive impact on revenues of RUB 3 billion) and was accompanied by upturn in average sales price by 8.2% (positive impact on revenues of RUB 2 billion).

Gas Sales

The table below sets forth revenues, volumes and average price of gas sales by Rosneft*:

	For 3 months ended		% change	For 6 months ended		% change
	June 30, 2018	March 31, 2018		June 30, 2018	2017	
	RUB billion			RUB billion		
Revenue						
In the Russian Federation	44.3	55.9	(20.8)%	100.2	103.6	(3.3)%
Outside the Russian Federation	6.1	3.1	96.8%	9.2	2.3	>100.0%
Total	50.4	59.0	(14.6)%	109.4	105.9	3.3%
Sales volumes	bcm			bcm		
In the Russian Federation	13.80	16.17	(14.7)%	29.97	31.53	(4.9)%
Outside the Russian Federation	0.59	0.39	51.3%	0.98	0.37	>100.0%
Total	14.39	16.56	(13.1)%	30.95	31.90	(3.0)%
Average price	th. RUB/th. of cubic metres			th. RUB/th. of cubic metres		
In the Russian Federation	3.22	3.46	(6.9)%	3.35	3.29	1.8%
Outside the Russian Federation	10.19	8.06	26.4%	9.34	6.11	52.9%
Average price of the Company	3.50	3.57	(2.0)%	3.54	3.32	6.6%

*Average price is calculated from unrounded figures.

Decrease in gas sales volumes in the Russian Federation of 14.7% in the second quarter of 2018 compared with the first quarter of 2018 was due to the end of the heating season and the corresponding decline in gas consumption in the domestic market (negative impact on revenues of RUB 8.3 billion), that was accompanied by average sales price downturn of 6.9% (negative impact on revenues of RUB 3.3 billion). Thus, gas revenues in the Russian Federation decreased by 20.8% if compared to the first quarter of 2018. Significant growth of gas revenues outside Russia was mainly due to the production growth at Zohr project.

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In the Russian Federation gas sales downturn in the first half of 2018 compared with the same period of 2017 resulted from decrease in gas sales volumes of 4.9% (negative impact on revenues of RUB 5.1 billion), caused by reduction of gas production and procurement, that was partially offset by the average sales price upturn of 1.8% (positive impact on revenues of RUB 1.7 billion).

Support Services and Other Revenues

Rosneft owns service companies that render drilling, construction, repairs and other services mainly to the companies within the Group. Revenues from services rendered to third parties are included in the consolidated statements of profit or loss.

The following table sets forth Rosneft's other revenues for the periods analysed:

	For 3 months ended					% change	For 6 months ended June 30,				
	June 30, 2018		March 31, 2018		2018		2017		% change		
	% of total revenue	% of total revenue	% of total revenue	% of total revenue			% of total revenue	% of total revenue			
	billion RUB, except %										
Drilling services	0.5	2.4%	0.8	3.9%	(37.5)%	1.3	3.2%	2.3	6.3%	(43.5)%	
Sales of materials	9.5	46.3%	7.3	35.6%	30.1%	16.8	41.0%	11.6	31.9%	44.8%	
Repairs and maintenance services	0.5	2.4%	0.5	2.4%	–	1.0	2.4%	1.2	3.3%	(16.7)%	
Rent services	1.1	5.4%	1.2	5.9%	(8.3)%	2.3	5.6%	2.9	8.0%	(20.7)%	
Construction services	0.0	0.0%	0.3	1.5%	(100.0)%	0.3	0.7%	0.2	0.5%	50.0%	
Transport services	3.9	19.0%	4.1	20.0%	(4.9)%	8.0	19.5%	7.4	20.3%	8.1%	
Electric power sales and transmission	2.2	10.7%	3.1	15.1%	(29.0)%	5.3	12.9%	4.6	12.6%	15.2%	
Other revenues	2.8	13.8%	3.2	15.6%	(12.5)%	6.0	14.7%	6.2	17.1%	(3.2)%	
Total	20.5	100.0%	20.5	100.0%	–	41.0	100.0%	36.4	100.0%	12.6%	

Equity share in profits of downstream associates and joint ventures

The equity share in net financial results (profits) of downstream¹ associates and joint ventures amounts to RUB 2.1 billion in the first half of 2018 (including equity income from the Nayara Energy (formerly known as Essar Oil) project of RUB 1.4 billion). In the first half of 2017, the equity income was RUB 4 billion.

Downstream production and operating costs

Downstream operating expenses include*:

	For 3 months ended			% change	For 6 months ended June 30.		% change	
	June 30, 2018		March 31, 2018		2018	2017		
	% of total revenue	% of total revenue	% of total revenue					% of total revenue
	billion RUB, except %							
Operating expenses at refineries in Russia		29.3		28.4	3.2%	57.7	59.4	(2.9)%
Operating expenses at refineries and cost of additives and materials procured for processing outside Russia		14.4		12.4	16.1%	26.8	19.9	34.7%
Operating expenses of retail companies including:		13.4		12.3	8.9%	25.7	23.9	7.5%
<i>operating expenses</i>		9.3		9.1	2.2%	18.4	16.9	8.9%
<i>purchase cost of other inventories</i>		4.1		3.2	28.1%	7.3	7.0	4.3%
Downstream operating expenses		57.1		53.1	7.5%	110.2	103.2	6.8%
<i>Intragroup inventory effect and others</i>		(43.1)		9.0	–	(34.2)	5.2	–
Total Downstream Operating expenses**		14.0		62.1	(77.5)%	76.0	108.4	(29.9)%

*The difference between percentages presented in the above table and other sections is a result of rounding.

**Cost of materials for blending at the retail companies was presented in the "Cost of Purchased Oil, Gas and Petroleum Products and Refining Costs". The comparative periods were adjusted respectively.

Operating expenses of refineries and retail companies (net of intragroup inventory effect) in the second quarter of 2018 compared with the first quarter of 2018 increased by 7.5% due to the higher scheduled volumes of turnarounds and production growth.

¹ See the equity share in net financial results of upstream associates and joint ventures in the section "Upstream operating results".

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Operating expenses of refineries and retail companies (net of intragroup inventory effect) in the first half of 2018 compared with the first half of 2017 increased by 6.8%, that is mainly due to growth of volumes of scheduled turnarounds at refineries outside Russia, higher electricity expenses and also due to RUB depreciation against EUR.

Operating expenses of Company's refineries

The table below shows operating expenses at Rosneft's refineries:

	For 3 months ended		%	For 6 months ended		%
	June 30, 2018	March 31, 2018		June 30, 2018	2017	
Operating expenses at refineries in Russia (RUB billion)	29.3	28.4	3.2%	57.7	59.4	(2.9)%
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne)	1,310	1,284	2.0%	1,297	1,325	(2.1)%
Operating expenses per tonne of crude oil throughput (RUB per tonne)	1,270	1,244	2.1%	1,257	1,282	(2.0)%
Operating expenses at refineries outside Russia (RUB billion)*	7.4	5.8	27.6%	13.2	9.3	41.9%
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne)	2,379	2,014	18.1%	2,204	1,595	38.2%
Operating expenses per tonne of crude oil throughput (RUB per tonne)	2,434	2,021	20.4%	2,234	1,595	40.1%
Total operating expenses at Rosneft's refineries (RUB billion)	36.7	34.2	7.3%	70.9	68.7	3.2%

*Refineries outside Russia also procured the additives and materials for processing: in the second quarter of 2018 – RUB 7.0 billion, in the first quarter of 2018 – RUB 6.6 billion; in the first half of 2018 and 2017 – RUB 13.6 billion and RUB 10.6 billion, respectively.

Operating expenses of Rosneft's refineries in Russia in the second quarter of 2018 compared with the first quarter of 2018 increased by 3.2%, mainly due to scheduled increase in utilisation rate in terms of current demand.

Operating expenses of Rosneft's refineries in Russia in the first half of 2018 compared with the first half of 2017 decreased by 2.9% because of the reduced utilization rate, scheduled decrease in maintenance services that was set off by growth of electricity tariffs and indexation of wages.

In the second quarter of 2018 compared with the first quarter of 2018 operating costs per tonne of crude oil throughput at Rosneft's refineries in Russia increased by 2.1% that was mostly due to higher scheduled turnaround expenses.

Operating expenses of Rosneft's refineries outside Russia amounted to RUB 7.4 billion in the second quarter of 2018. If compared with the RUB 5.8 billion, in the first quarter of 2018, the expenses increased by 27.6% due to higher volumes of turnarounds and RUB depreciation against EUR. Operating expenses per tonne of crude oil throughput of Rosneft's refineries outside Russia in the second quarter of 2018 compared with the first quarter of 2018 increased by 20.4% mainly due to growth of maintenance and turnaround expenses.

The increase in the operating expenses of Rosneft's refineries outside Russia (and operating costs per tonne) in the first half of 2018 compared with the first half of 2017 was mainly driven by RUB depreciation of 12.7% against EUR and growth of turnaround expenses.

Cost of Purchased Oil, Gas and Petroleum Products and Refining Costs and others

The following table shows Rosneft's crude oil, gas and petroleum products procurement costs and volumes, and third-party refining costs*:

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June 30, 2018	March 31, 2018		2018	2017	
Crude oil and gas procurement						
Cost of crude oil and gas procured (RUB billion)**	202	166	21.7%	368	276	33.3%
<i>including Domestic market</i>	94	86	9.3%	180	127	41.7%
<i>International market</i>	108	80	35.0%	188	149	26.2%
Volume of crude oil procured (millions of barrels)	54.9	51.1	7.4%	106.0	110.1	(3.7)%
<i>including Domestic market</i>	27.7	28.3	(2.1)%	56.0	53.7	4.3%
<i>International market</i>	27.2	22.8	19.3%	50.0	56.4	(11.3)%
Volume of gas procured (bcm)	2.33	4.60	(49.3)%	6.93	8.08	(14.2)%
LNG procurement						
Cost of LNG (RUB billion)	–	–	–	–	2	(100.0)%
Volume of LNG procured (millions of tonnes)	–	–	–	–	0.13	(100.0)%
Petroleum products procurement						
Cost of petroleum products procured (RUB billion)***	75	60	25.0%	135	76	77.6%
Volume of petroleum products procured (millions of tonnes)	2.32	2.03	14.3%	4.35	3.12	39.4%
Crude oil, gas and petroleum, products refining services						
Cost of refining of crude oil under processing agreements (RUB billion)	7.4	6.8	8.8%	14.2	13.5	5.2%
Volumes of crude oil and petroleum products, produced under processing agreements (millions of tonnes)	2.0	1.9	5.3%	3.9	4.8	(18.8)%
Volumes of gas produced under processing agreements (bcm)	2.7	2.7	–	5.4	5.0	8.0%
Cost of products procured for blending on retail companies (RUB billion)						
	6.8	5.4	25.9%	12.2	11.8	3.4%
<i>Including intercompany purchases (RUB billion)</i>	6.8	5.4	25.9%	12.2	11.5	6.1%
Total cost of procured oil, gas and petroleum products, and refining costs (RUB billion)	285	232	22.8%	517	367	40.9%

*Cost of purchases under IFRS consolidated financial statements (net of intercompany turnover).

**Including costs of Upstream segment in the amount of RUB 6 billion in the second quarter of 2018, RUB 5 billion in the first quarter of 2018 and RUB 11 billion and RUB 21 billion in the first half of 2018 and 2017, respectively.

***Average procurement price of petroleum products purchased from third parties may be higher than the average selling price of petroleum products due to differences in the mix of procured and sold petroleum products.

Crude oil and Gas procurement

Rosneft purchases crude oil primarily from its associates to process it at own refineries or export. Rosneft procures crude oil on the international market to supply it to the refineries in Germany. In recent period the Company's trading activity has considerably increased.

The increase in crude oil and gas procurement of 21.7% in the second quarter of 2018 compared with the previous quarter is mainly attributable to growth of crude oil prices.

The structure of crude oil purchases is set in the table below:

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June 30, 2018	March 31, 2018		2018	2017	
	mln barrels			mln barrels		
International market	27.2	22.8	19.3%	50.0	56.4	(11.3)%
Udmurteft	5.8	6.1	(4.9)%	11.9	11.8	0.8%
Slavneft	11.7	12.1	(3.3)%	23.8	26.9	(11.5)%
Messoyahaneftgaz	3.9	3.7	5.4%	7.6	5.2	46.2%
Lukoil-Reservnefteproduct	0.2	0.2	–	0.4	1.0	(60.0)%
Others	6.1	6.2	(1.6)%	12.3	8.8	39.8%
Total	54.9	51.1	7.4%	106.0	110.1	(3.7)%

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Rosneft performs oil swaps operations in order to optimize transportation costs of deliveries to refineries. Revenues and costs related to these operations are presented on a net basis in the "Pipeline tariffs and Transportation costs" line of the consolidated statement of profit or loss.

The volume of swaps was 9.7 mln barrels and 8.7 mln barrels in the second quarter of 2018 and in the first quarter of 2018, respectively, and 15.6 mln barrels in the first half 2017.

Petroleum products procurement

Petroleum products from third parties are primarily procured to cover current needs of Rosneft's retail subsidiaries. Procurement of petroleum products is exposed to seasonal fluctuations in volumes and mix. Procurement prices may vary significantly depending on regional markets. Petroleum products outside Russia were procured primarily for sale on the international markets.

The table below sets forth Rosneft's costs, volumes and average prices per tonne of petroleum products procured from third parties in the second and first quarters of 2018, respectively:

	For 3 months ended						% change		
	June 30, 2018			March 31, 2018					
	RUB billion	mln tonnes	th. RUB/tonne*	RUB billion	mln tonnes	th. RUB/tonne*	RUB billion	mln tonnes	th. RUB/tonne
<i>Petroleum products procurement in Russia</i>	6	0.19		7	0.20		(14.3)%	(5.0)%	
High octane gasoline	2	0.07	39.0	3	0.09	39.5	(33.3)%	(22.2)%	(1.3)%
Diesel	3	0.07	42.6	3	0.08	40.9	0.0%	(12.5)%	4.2%
Jet fuel	0	0.00	42.6	0	0.00	41.5	0.0%	–	2.7%
Others	1	0.05	40.2	1	0.03	21.7	0.0%	66.7%	85.3** %
<i>Petroleum products procured outside Russia</i>	69	2.13	32.5	53	1.83	28.9	30.2%	16.4%	12.5%
Total	75	2.32		60	2.03		25.0%	14.3%	

*Calculated based on unrounded data.

** The increase is due to product mix.

The volume of petroleum products procured in Russia in the second quarter of 2018 compared with the previous quarter decreased by 5.0% due to the meeting of demand by the Company's own resources.

The table below sets forth Rosneft's costs, volumes and average prices per tonne of petroleum products procured from third parties in the first half of 2018 and 2017, respectively:

	For 6 months ended June 30,						% change		
	2018			2017					
	RUB billion	mln tonnes	th. RUB/tonne*	RUB billion	mln tonnes	th. RUB/tonne*	RUB billion	mln tonnes	th. RUB/tonne
<i>Petroleum products procurement in Russia</i>	13	0.39		14	0.45		(7.1)%	(13.3)%	
High octane gasoline	5	0.16	39.2	4	0.13	34.7	25.0%	23.1%	13.0%
Diesel	6	0.15	41.5	6	0.18	34.1	0.0%	(16.7)%	21.7%
Jet fuel	0	0.00	41.8	0	0.00	27.9	0.0%	–	49.8%
Others	2	0.08	30.5	4	0.14	20.1	(50.0)%	(42.9)%	51.7%
<i>Petroleum products and petrochemicals procured outside Russia</i>	122	3.96	30.8	62	2.67	23.2	96.8%	48.3%	32.8%
<i>Including petroleum products procurement</i>	122	3.96	30.8	61	2.65	23.0	100%	49.4%	33.9%
Total	135	4.35		76	3.12		77.6%	39.4%	

*Calculated based on unrounded data.

Average purchase prices may be different from average sale prices depending on different regional structure of purchases and mix structure of the petroleum products.

Volume of petroleum products procured outside Russia increased in the first half of 2018 compared with the same period of 2017 due to growth of the Company's trading activity.

Petroleum products and petrochemicals procurement outside Russia

Procurement of petroleum products outside Russia meets the contractual obligations under long-term agreements on sales of petroleum products.

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The volume of petroleum products and petrochemicals procured outside Russia in the second quarter of 2018 compared with the previous quarter significantly increased (by 16.4%) and was driven by an increased trading activity of the foreign division of the Company.

The increase in procurement of petroleum products and petrochemicals outside Russia in the first half of 2018 by 48.3% in comparison with the same period of 2017 was driven by average procurement price growth due to mix of crude oil products and the upturn of supply under the project in India (procurement from Nayara Energy Limited (formerly known as "Essar Oil Limited") in the first half of 2018.

Crude oil and gas processing, petroleum products processing

Starting from April 2014, associated petroleum gas sales to PJSC "Sibur" and purchases of dry stripped gas from PJSC "Sibur" are presented on a net basis in the Company's financial statements in processing costs in the amount of RUB 3.70 billion and RUB 3.14 billion in the second and first quarters of 2018, respectively; and RUB 6.51 billion in the first half of 2017.

Pipeline Tariffs and Transportation Costs

Transportation costs are costs incurred by Rosneft to transport crude oil for refining and to end customers and to deliver petroleum products from refineries to end customers (these may include pipeline tariffs and railroad tariffs, handling costs, port fees, sea freight and other costs) and also costs to transport gas via gas pipeline system.

The decrease in transportation costs by 5.0% in the second quarter of 2018 compared with the previous quarter was mainly caused by starting of the navigation period which is mainly seasonal factor.

The table below sets forth the comparison of costs per tonne of crude oil and petroleum products transported by pipeline, railroad and mixed transportation and gas transportation costs via gas pipeline system in the second and first quarters of 2018, respectively:

	For 3 months ended								% change		
	June 30, 2018				March 31, 2018						
	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t*	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t*	Volume	Cost	Cost per tonne
CRUDE OIL											
International sales											
Pipeline	28.2	92.5%	59.6	2.12	26.9	91.8%	57.3	2.13	4.8%	4.0%	(0.5)%
Railroad and mixed	0.7	2.3%	2.1	3.13	0.5	1.7%	1.7	3.55	40.0%	23.5%	(11.8)%
Pipeline and FCA**	1.6	5.2%			1.9	6.5%			(15.8)%		
Transportation to refineries											
Pipeline***	25.5		19.7	0.77	25.1		19.4	0.77	1.6%	1.5%	–
Railroad and mixed	2.5		8.4	3.41	2.5		8.7	3.51	–	(3.4)%	(2.8)%
PETROLEUM PRODUCTS											
International sales											
Pipeline	1.8	9.6%	4.5	2.52	2.2	11.8%	6.2	2.87	(18.2)%	(27.4)%	(12.2)%
Railroad and mixed	13.4	71.3%	29.9	2.23	13.3	71.5%	36.4	2.75	0.8%	(17.9)%	(18.9)%
Pipeline and FCA****	3.6	19.1%			3.1	16.7%				16.1%	
GAS											
Pipeline*****	bcm		RUB/bcm		bcm		RUB/bcm				
Pipeline*****	9.7		10.2	1.06	10.8		12.0	1.12	(10.2)%	(15.0)%	(5.4)%
Other transportation expenses*****											
			17.5					18	(2.8)%		
Total	77.3		152		75.5		160		2.4%	(5.0)%	

* Calculated based on unrounded data.

** Rosneft exported part of crude oil on FCA terms and through the foreign trading subsidiary of the Company, where Rosneft does not bear transportation expenses directly, except for transshipment and dispatching cargo costs.

*** Including crude oil purchased on international market, which was delivered to the German refineries.

**** Rosneft exported part of petroleum products through its own export terminal in Tuapse.

***** Part of gas volumes was dispatched on terms under which Rosneft does not bear transportation expenses. In the second quarter of 2018 and in the first quarter of 2018 the volumes were 4.7 bcm and 5.8 bcm, respectively.

***** Other transportation expenses include cost of railroad transportation of petroleum products from refineries to tank farms and road transportation from tank farms to fuel filling station.

Crude oil railroad and mixed transportation cost per tonne of international sales was 11.8% lower due to change in structure of transportation routes.

Management's discussion and analysis of financial condition and results of operations of Rosneft for the second quarter of 2018

Crude oil pipeline transportation cost per tonne of supplies to refineries did not change in the second quarter of 2018 compared to the first quarter of 2018.

Crude oil railroad and mixed transportation cost per tonne of supplies to refineries in the second quarter of 2018 decreased by 2.8% compared with the first quarter of 2018 due to change in transportation structure (start of navigation period).

The decrease in pipeline cost per tonne of petroleum products international sales by 12.2% in the second quarter of 2018 compared with the previous quarter was mainly due to change in transportation structure.

In the second and first quarters of 2018 and 2017 indexation of gas transportation tariffs was not carried out.

The table below sets forth comparison for costs per tonne of crude oil and petroleum products transported by pipeline, railway and mixed transportation and gas transportation costs via gas pipeline system in first half of 2018 and 2017, respectively:

	For 6 months ended June 30,								% change		
	2018				2017				Volume	Cost	Cost per tonne
	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t	Volume, mln tonnes	Share in export volumes	Cost, bln RUB	Cost per tonne, th.RUB/t			
CRUDE OIL											
<u>International sales</u>											
Pipeline	55.1	92.1%	116.9	2.12	53.0	88.8%	106.6	2.01	4.0%	9.7%	5.6%
Railroad and mixed	1.2	2.0%	3.8	3.31	1.1	1.8%	3.6	3.37	9.1%	5.6%	(1.8)%
Pipeline and FCA**	3.5	5.9%			5.6	9.4%			(37.5)%		
<u>Transportation to refineries</u>											
Pipeline***	50.6		39.1	0.77	51.0		38.5	0.76	(0.8)%	1.6%	1.3%
Railroad and mixed	5.0		17.1	3.46	4.9		15.7	3.21	2.0%	8.9%	7.8%
PETROLEUM PRODUCTS											
<u>International sales</u>											
Pipeline	4.0	10.7%	10.7	2.71	4.3	11.8%	12.5	2.85	(7.0)%	(14.4)%	(4.9)%
Railroad and mixed	26.7	71.4%	66.3	2.49	26.7	73.4%	67.3	2.53	–	(1.5)%	(1.6)%
Pipeline and FCA****	6.7	17.9%			5.4	14.8%			24.1%		
GAS											
Pipeline*****	bcm		RUB/bcm		bcm		RUB/bcm				
	20.5		22.2	1.09	21.8		24.9	1.14	(6.0)%	(10.8)%	(4.4)%
Other transportation expenses *****			35.5				29.0		22.4%		
Total	152.8		312		152.0		298		0.5%	4.5%	

*Calculated based on unrounded data.

**Rosneft exported part of crude oil on FCA terms and through the foreign trading subsidiary of the Company, where Rosneft does not bear transportation expenses directly, except for transshipment and dispatching cargo costs.

***Including crude oil purchased on international market, which was delivered to German refineries.

****Rosneft exported part of petroleum products through its own export terminal in Tuapse.

*****Part of gas volumes was dispatched on terms where Rosneft does not bear transportation expenses. In the first half of 2018 and 2017 these volumes amounted to 10.5 bcm and 10.1 bcm, respectively.

*****Other transportation expenses include cost of railroad transportation of petroleum products from refineries to tank farms and road transportation from tank farms to fuel filling stations.

The change in transportation costs per tonne of products sold (for crude oil and petroleum products) for the first half of 2018 compared with the same period of 2017 mainly resulted from tariffs indexation.

Excise tax

Excise tax in the second quarter of 2018¹ was RUB 86 billion (including excise tax related to processing outside Russia in the amount of RUB 26 billion) compared with the excise tax of RUB 84 billion in the first quarter of 2018. The increase was caused by higher volumes of production in the second quarter of 2018.

Excise tax in the first half of 2018 compared with the same period of 2017 increased to RUB 170 billion due to higher excise tax rate for petroleum products and higher volumes of the oil products produced and directed in the market outside Russia.

¹The excise rates for June 2018 are reduced in accordance with new Federal law 199-FZ, acting from 01.06.2018.

Export Customs Duty

Export customs duties include crude oil and petroleum products export customs duties. The export customs duties are also discussed in the section "Taxation" in Attachment 1.

The following table sets forth Rosneft's export customs duties for the periods analyzed:

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June 30, 2018	March 31, 2018		2018	2017	
	RUB billion, except %					
Export customs duty for crude oil	176	158	11.4%	334	236	41.5%
Export customs duty for petroleum products	64	57	12.3%	121	90	34.4%
Total export customs duty	240	215	11.6%	455	326	39.6%

Export customs duty growth in the second quarter of 2018 compared with the first quarter of 2018 was caused by an increase in export customs duty rates due to higher Urals price (+11.1% in USD terms) and RUB depreciation. The impact was partially offset by the positive effect of duty time lag.

In the first half of 2018 compared with the same period of 2017 a significant increase in export customs duty expenses was mainly driven by higher customs duty rates due to the Urals price rise (+36.3% in USD terms).

The following table sets forth certain information about the export customs duty on crude oil:

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June 30, 2018	March 31, 2018		2018	2017	
	th. RUB per tonne, except %					
Enacted export customs duty on crude oil	7.46	6.65	12.1%	7.06	4.95	42.6%
Actual customs duty on crude oil exports	6.95	6.33	9.8%	6.64	4.79	38.6%

The deviation of an actual average customs duty on exports is caused by irregular monthly export volumes, which are subject to different export customs duty and by application of special formulas of calculation of the export customs duty rates ("preferential" rates) according to provisions of Art. 3.1 of the Act of the Russian Federation "On the customs tariff".

Operating results of segment "Corporate and others"

Segment includes the Group companies that provide corporate services and holdings' expenses.

	For 3 months ended		% change	For 6 months ended June 30,		% change
	June 30, 2018	March 31, 2018		2018	2017	
Financial results. RUB billion						
EBITDA	(11)	(13)	15.4%	(24)	(30)	20.0%
Capital expenditures*	2	5	(60.0)%	7	15	(53.3)%

*Refer to "Capital expenditures".

Separate indicators of the consolidated financial statements

Costs and Expenses

General and Administrative Expenses

General and administrative expenses include wages, salaries and social benefits (except for wages and social benefits of technical staff of production and refining entities), banking commissions, third-party fees for professional services, insurance expenses (except for insurance of oil and gas production and refining entities), maintenance of social infrastructure, lease expenses, allowances for expected credit losses and other general expenses.

General and administrative expenses in the second quarter of 2018 amounted to RUB 43 billion, including the allowance for expected credit losses of RUB 5 billion. Net of the allowance for expected credit losses, general and administrative expenses were RUB 38 billion.

General and administrative expenses, net of the allowance for expected credit losses, were RUB 72 billion in the first half of 2018 and RUB 71 billion – in the first half of 2017.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization include depreciation of crude oil and gas producing assets and other production and corporate assets.

In the second quarter of 2018 DDA grew to RUB 157 billion compared with the first quarter of 2018 (RUB 152 billion) that was caused by putting into operation of fixed assets at new projects. The DDA grew in the first half of 2018 compared to the same period of 2017 due to the acquisition of new assets in 2017 and putting into operation of fixed assets.

Taxes Other than Income Tax

Taxes other than income tax include the mineral extraction tax, the excise tax, the property tax and other taxes. The basis for calculation of mineral extraction tax is set in the section "Taxation" in the Attachment 1.

The following table sets forth Rosneft's taxes other than income tax (excluding export duties) for the periods analysed (in RUB billion):

	For 3 months ended		%	For 6 months ended		%
	June 30, 2018	March 31, 2018		June 30, 2018	June 30, 2017	
Mineral extraction tax	566	455	24.4%	1,021	690	48.0%
Excise tax	86	84	2.4%	170	155	9.7%
Social security tax	17	17	–	34	32	6.3%
Property tax	11	11	–	22	18	22.2%
Other taxes, interest, penalties and other payments to budget	2	1	100.0%	3	4	(25.0)%
Total taxes other than income tax	682	568	20.1%	1,250	899	39.0%

Taxes other than income tax in the second quarter of 2018 compared with the first quarter of 2018 increased by 20.1% due to growth of the mineral extraction tax expense of 24.4% because of the growth of average crude oil extraction tax rate.

In the first half of 2018 compared with the same period of 2017, taxes other than income tax increased by 39.0% mainly due to excise rate and MET base rate growth.

Finance Income and Expenses

In the second quarter of 2018, net finance expenses were RUB 47 billion compared with RUB 30 billion in the first quarter of 2018. In the first half of 2018, net finance expenses increased to RUB 77 billion compared with RUB 56 billion in the first half of 2017. The increase was caused by the fair value re-measurement of derivative financial instruments.

Other Income and Other Expenses

In the second quarter of 2018, other income amounted to RUB 32 billion, if compared to RUB 6 billion in the first quarter of 2018, due to the recognition of gain on bargain purchase and gain on re-measurement of fair value of the Company's investment in joint ventures.

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Other expenses include assets impairment, effect of fixed assets disposal in the course of operating activities and other expenses. In the second quarter of 2018, other expenses increased to RUB 71 billion due to recognition of goodwill impairment of RUB 47 billion and recognition of the litigation provision of RUB 8 billion.

Foreign Exchange Differences

Foreign exchange effects are mostly attributable to monthly revaluation of assets and liabilities denominated in foreign currency at the exchange rate at the end of the period.

Foreign exchange effects in the second quarter of 2018 was profit in the amount of RUB 72 billion in comparison with the profit in the amount of RUB 1 billion in the first quarter of 2018 that was due to positive effect of RUB revaluation of assets nominated in EUR proceeding from the dynamics of exchange rates.

Capitalized exchange differences resulting from foreign currency borrowings used for capital construction projects and the acquisition of property, plants and equipment were RUB 14 billion in the first half of 2018 and RUB 27 billion in the first half of 2017, respectively.

Cash flow hedges reclassified to profit or loss

Cash flow hedges reclassified to profit or loss recognized in the consolidated statement of profit or loss in the second and first quarters of 2018 were RUB 37 billion and RUB 36 billion, respectively. In the first half of 2017 cash flow hedges reclassified to profit or loss recognized in the consolidated statement of profit or loss were RUB 73 billion.

Income Tax

The following table sets forth the Company's effective income tax rate under IFRS for the periods analysed:

	For 3 months ended		For 6 months ended June 30,	
	June 30, 2018	March 31, 2018	2018	2017
Effective rate of income tax (IFRS)	20.5%	24.0%	21.5%	15.6%

The Company applies the provisions of IAS 12 "Income taxes" to determine income tax in the consolidated profit or loss statement. The effective income tax rate for reported periods differs from the statutory rate of 20% because of differences in recognition of expenses and income for IFRS and tax purposes and due to application of tax relief.

Net Income

In the second quarter of 2018, the net income grew to RUB 256 billion (RUB 228 billion attributable to Rosneft shareholders) more than 2.8 times, in comparison with the first quarter of 2018, due to higher operating income, positive forex effect and recognition of gain on bargain purchase and gain on re-measurement of fair value of the Company's investment in joint ventures, at the same time compensated by the recognition of goodwill impairment.

In the first half of 2018 and 2017 amounted to RUB 351 billion (RUB 309 billion attributable to Rosneft shareholders) and RUB 92 billion (RUB 75 billion attributable to Rosneft shareholders), respectively.

Liquidity and Capital Resources

Cash Flows

The principal items of the statement of cash flows for the periods analysed are as follows:

	For 3 months ended		% change	For 6 months ended		% change
	June 30, 2018	March 31, 2018		June 30, 2018	2017	
	RUB billion			RUB billion		
Net cash received from operating activities	348	271	28.4%	619	213	>100%
Net cash used in investing activities	(349)	(221)	57.9%	(570)	(408)	39.7%
Net cash used in financing activities	(23)	(67)	(65.7)%	(90)	(134)	(32.8)%

Net cash received from operating activities

Net cash provided by operating activity for the analysed periods is presented in the table below:

	For 3 months ended		% change	For 6 months ended		% change
	June 30, 2018	March 31, 2018		June 30, 2018	2017	
	RUB billion			RUB billion		
Net cash provided by operating activity	348	271	28.4%	619	213	>100%
<i>Offset of prepayments received under long term supply contracts at average ex.rate</i>	42	40	5.0%	82	222	(63.1)%
<i>Offset of other financial liabilities²</i>	37	34	8.8%	71	36	97.2%
<i>Interest expense for prepayments under long term supply contracts¹</i>	23	20	15.0%	43	41	4.9%
<i>Financing of future deliveries</i>	–	–	–	–	73	–
Adjusted net cash provided by operating activity	450	365	23.3%	815	585	39.3%

¹ Interest expenses for prepayments under long term supply contracts were included into adjusted operating cash flows for comparative periods. Interest expenses on the prepayment on long-term oil and petroleum products supply agreements are composed of interests accrued for the reporting period and offset against crude oil supply under the contracts in the amount of RUB 22 billion and interests paid of RUB 1 billion in the second quarter of 2018; offsetting of RUB 18 billion and interests paid of RUB 2 billion in the first quarter of 2018 and offsetting of RUB 36 billion and interests paid of RUB 5 billion in the first half of 2017.

²Other financial liabilities are offset by deliveries.

The increase in operating cash flow in the second quarter of 2018 is mainly driven by positive operating results. As part of measures to increase shareholder value, the Company implements a plan to optimize supply, as well as developing initiatives to optimize accounts receivable.

Net cash used in investing activities

In the second quarter of 2018 the Company's investing activity mainly referred to capital expenditures and acquisition of licenses. The growth of cash used in the investing activity in the second quarter of 2018 resulted from higher planned capital expenditures and investments in international projects of RUB 34 billion, and acquisition of short-term financial assets.

In the first half of 2018 compared with the same period of 2017 planned growth of investing activity was mainly due to planned capital expenditures.

Net cash used in financing activities

In the second quarter and in the first quarters of 2018 net cash used in financing activities was mainly used for the scheduled repayment of loans and Eurobonds.

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Capital Expenditures

The table below sets forth Rosneft's capital expenditures by operating segments and license acquisition costs:

	For 3 months ended		% change	For 6 months ended		% change
	June 30, 2018	March 31, 2018		June 30, 2018	2017	
	RUB billion			RUB billion		
RN-Yuganskneftegaz	54	58	(6.9)%	112	96	16.7%
Vankor projects	19	15	26.7%	34	28	21.4%
Orenburgneft	8	8	–	16	14	14.3%
Samotlorneftegaz	14	14	–	28	22	27.3%
Offshore projects	3	3	–	6	5	20.0%
RN-Uvatneftegaz	5	7	(28.6)%	12	14	(14.3)%
Verkhnechonskneftegaz	5	4	25.0%	9	10	(10.0)%
RN-Purneftegaz	5	5	–	10	11	(9.1)%
Rospan International	8	9	(11.1)%	17	25	(32.0)%
Samaraneftegaz	8	7	14.3%	15	13	15.4%
Varyoganneftegaz	4	5	(20.0)%	9	9	–
VSNGK	9	6	50.0%	15	10	50.0%
Tomskneft VNK	1	2	(50.0)%	3	5	(40.0)%
RN-Nyaganneftegaz	5	6	(16.7)%	11	8	37.5%
RN-Severnaya Neft	5	4	25.0%	9	6	50.0%
Tyumenneftegaz	6	5	20.0%	11	9	22.2%
Taas-Yuryakh Neftegazodobycha	6	6	–	12	20	(40.0)%
Sibneftegaz	1	1	–	2	2	–
Bashneft-Dobycha	5	4	25.0%	9	9	–
Bashneft-Polyus	5	2	>100%	7	10	(30.0)%
Sorovskneft	2	1	100.0%	3	4	(25.0)%
Kondaneft	7	6	16.7%	13	5	>100%
Upstream projects (Zohr)	7	10	(30.0)%	17	–	–
Other	19	16	18.8%	35	22	59.1%
Government grants	–	–	–	–	(1)	(100.0)%
Total upstream segment	211	204	3.4%	415	356	16.6%
Tuapse refinery	1	1	–	2	5	(60.0)%
Kuibyshev refinery	1	1	–	2	3	(33.3)%
Novokuibyshevsk refinery	2	1	100.0%	3	2	50.0%
Syzran refinery	–	1	(100.0)%	1	1	–
Angarsk refinery	1	1	–	2	2	–
Achinsk refinery	1	–	–	1	1	–
Ryazan refinery	1	1	–	2	2	–
Komsomolsk refinery	1	–	–	1	1	–
Saratov refinery	1	–	–	1	–	–
Bashneft refineries	1	1	–	2	3	(33.3)%
Other refineries	1	3	(66.7)%	4	6	(33.3)%
Marketing Business Units and others	5	4	25.0%	9	10	(10.0)%
Total downstream segment	16	14	14.3%	30	36	(16.7)%
Total other activities	2	5	(60.0)%	7	15	(53.3)%
Total capital expenditures	229	223	2.7%	452	407	11.1%
Acquisition of licenses	1	1	–	2	24	(91.7)%
Return of auction advances	–	–	–	–	–	–

In the second quarter of 2018 total capital expenditures amounted to RUB 229 billion (increase by 2.7%) compared with RUB 223 billion in the first quarter of 2018. In the first half of 2018 and 2017 total capital expenditures were RUB 452 billion and RUB 407 billion, respectively (increase by 11.1%).

In the second quarter of 2018 upstream capital expenditures amounted to RUB 211 billion (increase by 3.4%) in comparison with RUB 204 billion in the first quarter of 2018. In the first half of 2018 upstream capital expenditures were RUB 415 billion (increase by 16.6%) in comparison with RUB 356 billion in the first half of 2017. Upstream capital expenditures are mainly directed to the production drilling, the development of fields and new projects.

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In the second quarter of 2018 downstream capital expenditures were RUB 16 billion, including capital expenditures of investment tariffs, in comparison with RUB 14 billion in the first quarter of 2018. In the first half of 2018 downstream capital expenditures were RUB 30 billion.

The capital expenditures of refineries were mainly directed to the planned maintenance of current refining capacities.

Capital expenditures of other activities are mainly related to scheduled purchases of IT equipment, vessels, transport and other equipment assets.

The license acquisition costs of RUB 1 billion in the second quarter of 2018 referred to the acquisition of new licenses for research, exploration and production at Samara region and Republic of Bashkortostan.

Financial liabilities and liquid funds

Financial liabilities detailed by currencies and liquid funds are set in the table below¹:

As of the date	<i>currency in bln</i>											
	June 30, 2018				March 31, 2018				June 30, 2017 <i>(restated)</i>			
	USD	RUB	Euro	Other (RUB equi- valent)	USD	RUB	Euro	Other (RUB equi- valent)	USD	RUB	Euro	Other (RUB equi- valent)
Financial liabilities	(27.8)	(2,140)	(1.7)	–	(28.5)	(2,120)	(3.1)	–	(32.1)	(1,322)	(1.7)	–
Liquid funds ²	7.2	380	5.3	2.0	6.2	327	5.7	2.1	9.9	274	5.3	2.8
Net financial liabilities	(20.6)	(1,760)	3.6	2.0	(22.3)	(1,793)	2.6	2.1	(22.2)	(1,048)	3.6	2.8

¹Calculated based on unrounded data

²Include cash and cash equivalents, short-term financial assets and part of bank deposits

The level of financial liabilities and liquid funds, which generate additional yield to fulfil the Company's commitments, remained at the point which strongly secured the Company's high financial stability.

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Key consolidated financial highlights (in RUB terms)

Rosneft monitors and evaluates its activities on an ongoing basis. Key financial ratios are set forth below:

	For 3 months ended		For 6 months ended June 30,	
	June 30, 2018	March 31, 2018	2018	2017
EBITDA margin	26.9%	21.9%	24.6%	22.0%
Net income margin attributable to Rosneft shareholders	11.0%	4.7%	8.2%	2.7%
Current ratio	0.91	0.79	0.91	0.60
	RUB / bbl			
EBITDA*/bbl	1,397	974	1,187	796
Upstream capital expenditures/bbl	541	532	537	459
Upstream operating expenses/bbl	238	230	234	220
Free cash flow /bbl	567	371	469	230
	RUB / boe			
EBITDA*/boe	1,131	782	957	639
Upstream capital expenditures/boe	438	428	433	369
Upstream operating expenses/boe	192	185	189	176
Free cash flow /boe	459	298	379	184

*The effect of associates is excluded for calculation.

The Company considers EBITDA/bbl, upstream operating expenses/bbl, upstream operating expenses/boe and the related indicators as important measures of its operating performance. In addition, these measures are frequently used by financial analysts, investors and other interested parties in the evaluation of oil and gas companies. These measures have limitations as analytical tools and should not be considered in isolation, or as a substitute for analysis of the Company's operating results as reported under IFRS.

The following tables set forth relevant numbers relating to these measures for the periods and as of the dates indicated:

Upstream Measures*

	For 3 months ended		For 6 months ended June 30,	
	June 30, 2018	March 31, 2018	2018	2017
Crude oil and NGL production (mln bbl)	390.1	383.1	773.2	775.1
Crude oil, NGL and gas production (mln boe)	482.0	476.8	958.8	964.9

*Excluding share in production of associates and joint ventures.

Calculation of EBITDA

	For 3 months ended		For 6 months ended June 30,	
	June 30, 2018	March 31, 2018	2018	2017
	RUB billion			
Revenues and equity share in profits of associates and joint ventures	2,065	1,722	3,787	2,809
Effect of prepayments offsetting	35	33	68	96
Costs and expenses	(1,692)	(1,522)	(3,214)	(2,562)
Depreciation, depletion and amortization	157	152	309	296
EBITDA	565	385	950	639

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Calculation of Free Cash Flow

	For 3 months ended		For 6 months ended June 30,	
	June 30, 2018	March 31, 2018	2018	2017
	RUB billion			
Operating cash flow	348	271	619	213
Capital expenditures	(229)	(223)	(452)	(407)
Offset of prepayments under long term supply agreements*	42	40	82	222
Offset of other financial liabilities	37	34	71	36
Interest expense on prepayments under long term supply agreements**	23	20	43	41
Financing of future deliveries	–	–	–	73
Free cash flow (RUB equivalent)	221	142	363	178

* Based on average exchange rates during the reporting periods (monthly basis).

** Free cash flow estimation for comparative periods includes interest expenses on the prepayments under long-term oil and petroleum products supply agreements. Interest expenses on the prepayments under long-term oil and petroleum products supply agreements are composed of interests accrued for the reporting period and offset against crude oil supply under the contracts in the amount of RUB 22 billion and interests paid of RUB 1 billion in the second quarter of 2018; offset of RUB 18 billion and interests paid of RUB 2 billion in the first quarter of 2018 and offset of RUB 36 billion and interests paid of RUB 5 billion in the first half of 2017.

Calculation of EBITDA Margin

	For 3 months ended		For 6 months ended June 30,	
	June 30, 2018	March 31, 2018	2018	2017
	RUB billion (except %)			
EBITDA	565	385	950	639
Revenues and equity share in profits of associates and joint ventures	2,065	1,722	3,787	2,809
Effect of prepayments offsetting	35	33	68	96
Adjusted revenues	2,100	1,755	3,855	2,905
EBITDA margin	26.9%	21.9%	24.6%	22.0%

Calculation of Net Income Margin attributable to Rosneft shareholders

	For 3 months ended		For 6 months ended June 30,	
	June 30, 2018	March 31, 2018	2018	2017
	RUB billion (except %)			
Net income attributable to Rosneft shareholders	228	81	309	75
Revenues and equity share in profits of associates and joint ventures	2,065	1,722	3,787	2,809
Net income margin	11.0%	4.7%	8.2%	2.7%

Calculation of Current ratio

As of the date	June 30, 2018	March 31, 2018	June 30, 2017
	RUB billion (except ratios)		
Current assets	2,531	2,190	1,882
Current liabilities	2,777	2,786	3,138
Current ratio	0.91	0.79	0.60

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Consolidated financial highlights (in USD terms)

Consolidated statement of profit or loss*

	For 3 months ended		For 6 months ended June 30,	
	June 30, 2018	March 31, 2018	2018	2017
	USD billion			
Total revenues and equity share in profits of associates and joint ventures	33.9	30.9	64.8	50.1
Costs and expenses				
Production and operating expenses	2.1	2.8	4.9	5.1
Cost of purchased oil, gas, petroleum products and refining costs	4.6	4.1	8.7	6.3
General and administrative expenses	0.7	0.6	1.3	1.3
Pipeline tariffs and transportation costs	2.5	2.8	5.3	5.1
Exploration expenses	0.1	–	0.1	0.1
Depreciation, depletion and amortization	2.5	2.7	5.2	5.1
Taxes other than income tax	10.9	10.0	20.9	15.6
Export customs duty	3.9	3.8	7.7	5.6
Total costs and expenses	27.3	26.8	54.1	44.2
Operating income	6.6	4.1	10.7	5.9
Finance income	0.5	0.5	1.0	1.0
Finance expenses	(1.2)	(1.1)	(2.3)	(1.9)
Other income	0.5	0.1	0.6	–
Other expenses	(1.2)	(0.3)	(1.5)	(0.3)
Foreign exchange differences	0.6	(0.5)	0.1	(1.5)
Cash flow hedges reclassified to profit or loss	(0.6)	(0.6)	(1.2)	(1.3)
Income before income tax	5.2	2.2	7.4	1.9
Income tax expense	(1.1)	(0.5)	(1.6)	(0.3)
Net income	4.1	1.7	5.8	1.6
Net income attributable to Rosneft shareholders	3.6	1.5	5.1	1.3

* Calculated using average monthly USD exchange rates based on the Central Bank of Russia data for the reporting period (Appendix 2).

Key consolidated financial highlights (in USD terms)

Key financial ratios in USD equivalent for the periods indicated are set forth below:

	For 3 months ended		For 6 months ended June 30,	
	June 30, 2018	March 31, 2018	2018	2017
EBITDA margin	26.8%	22.0%	24.5%	22.0%
Net income margin	10.6%	4.9%	7.9%	2.6%
Current ratio	0.91	0.79	0.91	0.60
	USD/bbl*			
EBITDA/bbl	22.6	17.2	19.9	13.7
Upstream capital expenditures/bbl	8.8	9.3	9.1	7.9
Upstream operating expenses/bbl	3.8	4.1	3.9	3.8
Free cash flow/bbl	9.2	6.6	7.9	3.8
	USD/boe			
EBITDA/boe	18.3	13.8	16.1	11.0
Upstream capital expenditures/boe	7.1	7.5	7.3	6.4
Upstream operating expenses/boe	3.1	3.3	3.2	3.0
Free cash flow/boe	7.4	5.3	6.3	3.0

* Calculated from unrounded data.

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Calculation of Free Cash Flow

	For 3 months ended		For 6 months ended June 30,	
	June 30, 2018	March 31, 2018	2018	2017
	USD billion			
Operating cash flow	5.7	4.7	10.4	3.5
Capital expenditures	(3.7)	(3.9)	(7.6)	(7.0)
Offset of prepayments under long term supply agreements	0.7	0.7	1.4	3.8
Offset of other financial liabilities	0.6	0.6	1.2	0.6
Interest expense on prepayments under long term supply contracts	0.3	0.4	0.7	0.7
Financing of future deliveries	–	–	–	1.3
Free cash flow	3.6	2.5	6.1	2.9

Calculation of EBITDA Margin

	For 3 months ended		For 6 months ended June 30,	
	June 30, 2018	March 31, 2018	2018	2017
	USD billion (except %)			
Revenues and equity share in profits of associates and joint ventures	33.9	30.9	64.8	50.1
Operating expenses	(27.3)	(26.8)	(54.1)	(44.2)
Depreciation, depletion and amortization	2.5	2.7	5.2	5.1
EBITDA	9.1	6.8	15.9	11.0
Revenues and equity share in profits of associates and joint ventures	33.9	30.9	64.8	50.1
EBITDA margin	26.8%	22.0%	24.5%	22.0%

Calculation of Net Income Margin

	For 3 months ended		For 6 months ended June 30,	
	June 30, 2018	March 31, 2018	2018	2017
	USD billion (except %)			
Net income attributable to Rosneft shareholders	3.6	1.5	5.1	1.3
Revenues and equity share in profits of associates and joint ventures	33.9	30.9	64.8	50.1
Net income margin	10.6%	4.9%	7.9%	2.6%

Calculation of Current ratio

As of the date	June 30, 2018	March 31, 2018	June 30, 2017
	USD billion (except ratios)		
Current assets	40.3	38.2	31.9
Current liabilities	44.3	48.6	53.1
Current ratio	0.91	0.79	0.60

Appendix 1: Taxation

Mineral Extraction Tax (MET)

The rate of mineral extraction tax (MET) for crude oil is tied to the Urals price in the international market, and is calculated in USD per barrel of crude oil produced using average exchange rate established by the Central Bank of Russia for the respective month.

Starting from January, 2017 the mineral extraction tax rate is calculated by multiplying the tax rate of **RUB 919 per tonne** by the adjustment ratio of $((P - 15) \times \text{Exchange rate} / 261)$, where "P" is the average Urals price per barrel in USD and "Exchange rate" is the average RUB/USD exchange rate established by the Central Bank of Russia in the respective month and minus the factor which characterizes crude oil production at a particular oil field, "Dm"¹.

In accordance with the legislation tax relieves are applicable to certain fields. In 2018 the Company applied different tax relieves and special tax treatment of crude oil MET:

Tax relieves in 2018	Applicable in the Company
Zero rates	Oil fields with hard to recover reserves, including bazhenov, abalak, khadum, domanic formations
Reduced MET by coefficient "Dm", which characterizes crude oil production at a particular oil field	Oil fields located: <ul style="list-style-type: none"> In Irkutsk region, the republic of Sakha (Yakutia) and Krasnoyarsk territory which is applicable for the first 25 million tonnes of production On the territory of the Nenets Autonomous district, Yamalo-Nenets Autonomous district – for the first 15 million tonnes of production Okhotsk sea fields subject to zero mineral extraction tax rate which is applicable for the first 30 million tonnes of production Oil fields with reserve depletion rate of over 80%. Oil fields with the volume of initial recoverable reserves being less than 5 million tonnes. Oil fields with high-viscosity crude oil (in-situ viscosity more than 200 mPas and less than 10 000 mPas)
Tax deduction	At production from oil fields located in the region of the Republic of Bashkortostan At fields located entirely within the boundaries of the Nizhnevartovsk region of KHMAO – Yugra, the initial recoverable oil reserves of which amount to 450 million tons or more as of January 1, 2016 (total amount of the deduction in 2018 will be RUB 35 billion)
Special tax regime for offshore projects in the Russian Federation	The offshore projects are categorized into one of four groups depending on its complexity and specify MET rates for each project group ranging from 5% to 30% of hydrocarbon prices
Special tax regime exempting the Company from paying mineral extraction tax.	Exploration projects in the Sakhalin-1 PSA.

MET rate calculation for natural gas and gas condensate

The production of gas condensate is mainly subject to MET rate for crude oil because the purification of gas condensate is compounded in the crude oil production. Mineral extraction gas condensate tax rate is applied in separate purification of gas condensate.

In line with the formula base rate for gas condensate is RUB 42 per 1 tonne and for natural gas – RUB 35 per 1 th. cubic metres. Base rates are multiplied by basic rate of standard fuel unit and reduced coefficient which estimates the difficulty level of natural gas and (or) gas condensate production. Starting from January 1, 2017 the tax rate of mineral extraction gas condensate is adjusted by the multiplying coefficient 6.5.

¹ The coefficient "Dm" is calculated using base rate and factors which characterize the degree of depletion of a particular field, reserves of a particular field, the degree of difficulty of extraction and region of production and oil properties. Starting from January 2017, additional MET withdrawals are introduced: + 306 RUB/tonne 306 in 2017 (357 RUB/tonne in 2018, 428 RUB/tonne in 2019-2020).

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Reducing coefficient in 2018	Applicable in the Company
0.5	License areas: Rospan and Russko-Rechenskoe licensed fields and also at fields of Krasnodar and Stavropol regions
0.64	License areas: Kynsko-Chaselskoye fields and at a number of fields of Sibneftegaz, and also at Nenets Autonomous District, the Chechen republic and Krasnodar region
0.1	License areas: Irkutsk region, Krasnoyarsk region and the region of Far East or the sea of Okhotsk
0.21	License areas: Turon deposits reserves of the Kharampurskoye field
0.5-1	Fields with reserve depletion rate of over 70%.

New changes in the Tax code from 2019

On July 19, 2018 Federal Law No. 199-FZ "On amending parts one and two of the Tax Code of the Russian Federation" was adopted and provides for the introduction of the tax on additional income from production of hydrocarbons from January 1, 2019. The tax will be charged at the rate of 50% of the oil revenues calculated as the difference between the estimated revenue and costs (losses). The new tax regime requires maintaining the MET but with a reduced rate.

New tax regime will be applicable to the following groups of oil fields:

Groups	Geographic location	Proficiency as of 01.01.17
Greenfields of Eastern Siberia		
1	The Republic of Sakha, Irkutsk region, YANAO,	Not exceeding 5%
2	The Yamal-Nenets Autonomous district, Krasnoyarsk region, Caspian sea	Deposits specified in the Note to the Common Customs Tariff as of 01.01.2018.
Brownfields of Western Siberia		
3	KHMAO, YANAO, Komi Republic, Tyumen region	From 20% to 80% or from 10% to 80% provided that on 01.01.2011 worked out >1%. List of fields is determined by the Law.
Greenfields of Western Siberia		
4	KHMAO, YANAO, Komi Republic, Tyumen region	Not exceeding 5%. List of fields is determined by the Law.

For the fields that will pay the tax on additional income from hydrocarbon production, the MET rate will be calculated as: $(P - 15) \times 7.3 \times 0.5 \times "K" \times "Exchange\ rate" - "Export\ duty" \times "Exchange\ rate"$,

Where:

"P" - Urals price;

"Export duty" (further in the text);

"K" – the coefficient characterizing the period of time elapsed from the date of the beginning of industrial oil production at the field (further "break"):

Groups	"K"	Note
1,2	0.4	prior to the expiration of the first 5 years of commercial production
	0.6	the 6 th year of commercial production
	0.8	the 7 th year of commercial production
	1.0	from 8 year
4	0.5	before the end of the 1 st year of industrial production
	0.75	the 2 nd year of industrial production
	1.0	from the 3 rd year of industrial production

Excise duties

Taxpayers of an excise on oil products in the territory of the Russian Federation are producers of oil products. Besides, the tax is paid by legal entities when importing excise goods into the territory of the Russian Federation.

The Company as an owner of raw materials applies the deductions to excises on separate types of oil products in the cases provided by the legislation.

Export Customs Duty on Crude Oil

The rate of export customs duty on crude oil is tied to the Urals price in the international market and is denominated in USD per tonne.

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The table below sets forth the calculation of the ordinary export customs duty for crude oil:

<i>Urals price (USD per tonne)</i>	<i>Export customs duty (USD per tonne)</i>
Below and including 109.5 (15 USD per barrel)	Export customs duty is not levied
Above 109.5 to 146 including..... (15 to 20 USD per barrel)	35% of the difference between the average Urals price in USD per tonne and USD 109.5
Above 146 to 182.5 including..... (20 to 25 USD per barrel)	USD 12.78 <i>plus</i> 45% of the difference between the average Urals price in USD per tonne and USD 146
Above 182.5 (25 USD per barrel).....	USD 29.2 <i>plus</i> 30% of the difference between the average Urals price in USD per tonne and USD 182.5

The export customs duty changes every month and the duty for the next month is based on the average Urals price denominated in USD for crude oil for the period from the 15th day of the previous month to the 14th day (inclusive) of the current month.

The law on the introduction of a special tax regime in respect of projects on the continental shelf of the Russian Federation provides a full exemption of hydrocarbons produced at offshore fields from the export customs duties, which commercial production starting from January 1, 2016. Such an exemption is set for various terms depending on complexity of a field development project.

In 2016, the exemption was set for the East- Messoyakh field (zero customs duty rate could be applied to the export of 28.9 mln tonnes) and Srednebotuobinskoe field (zero customs duty rate could be applied to the export of 10.8 mln tonnes). Starting from 2017, the exemption was set for Kuyumbinskoe field (zero customs duty rate could be applied to the export of 29.0 mln tonnes)¹. In December 2017, by results of the annual monitoring which is carried out by the Ministry of Energy of the Russian Federation within an established order of application of special formulas of calculation of rates of the export customs duties, the oil volume which can be exported with application of zero customs duty rate from the East Messoyakh field has been reduced to 21.2 mln tonnes in connection with improvement of investment indicators of development of this field.

Export customs duty on crude oil export to countries that are members of Eurasian Economic Agreement

In accordance with the Eurasian Economic Agreement dated May 29, 2014 and effective from January 1, 2015 export duties are not payable on crude oil export to countries-participants of Eurasian Economic Agreement. Meanwhile, the Eurasian Economic Agreement enables some export limits on oil and oil products.

Export duties are not payable on crude oil exports to countries that are members of Eurasian Economic Agreement. At the same time quotes for tax-free sale of crude oil and petroleum products are set. In accordance with agreement with Armenia and the Kyrgyz republic all supplies above the quotes are subject for the duties.

In accordance with agreement between the Governments of Russian Federation and the Kazakhstan Republic on trade and economic cooperation in crude oil and petroleum products supplies dated December 9, 2010 the export ban was set for a specified list of petroleum products exported from Russian Federation to the Kazakhstan Republic.

Export Customs Duty on Petroleum Products

Export customs duty on petroleum products (except liquefied petroleum gas ("LPG")) is set every month as the marginal export customs duty rate on crude oil multiplied by the estimated ratio depending on the type of petroleum product.

Export customs duty on LPG is based on the average price of LPG at Poland board (DAF Brest) denominated in USD per tonne for the period from the 15th day of the previous month to the 14th day (inclusive) of the current month.

¹ East- Messoyakh and Kuyumbinskoe fields are developed by the Company within the framework of JV projects.

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Starting from January 1, 2015 marginal export customs duty for petroleum products is set as a percentage of the marginal export customs duty for crude oil as listed in table below:

Type of petroleum product	Marginal export customs duty (% of the marginal export customs duty for crude oil) for the period
	Since January 1, 2017
Light and middle distillates (excluding: naphtha and gasoline), benzene, toluene, xylenes, lubricants, diesel	30*
Naphtha	55*
Gasoline	30*
Fuel oil, bitumen oil, other dark oil products	100

*In accordance with the Federal law of 19.07.2018, № 201-FZ, the government of the Russian Federation was granted the authority to establish export duty rates for the indicated oil products for the period from 01.08.2018 to 31.12.2018 in the amount of up to 90% of the maximum duty rate for crude oil.

In 2018 and 2017, marginal export customs duties are set for estimation of customs duty, depending on the type of oil product.

New changes from 2019

According to the Federal law of 19.07.2018 № 201-FZ "on amendments to articles 3.1 and 35 of the Law of the Russian Federation" on customs tariff", the export of oil produced in the subsoil areas that have passed on the NDT (1.2 group), will be exempt from payment of export customs duties before the expiration of 7 years of industrial production, after the expiration of the exemption - standard duty rates.

The export duty will be calculated taking into account the rate according to the following formula:

Rate = (Urals (USD/bbl) x 7.3 – 182.5 USD/t) x 30% + 29.2 USD/t. The exemption is set for the greenfields (groups 1-2) till the expiration of the first 7 years of commercial production.

Appendix 2: Average monthly RUB/USD exchange rates, calculated using the Bank of Russia data

	2018	2017
	RUB/USD	
January	56.79	59.96
February	56.81	58.40
March	57.03	58.11
April	60.46	56.43
May	62.21	57.17
June	62.71	57.83