



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

Management's discussion and analysis of financial condition and results of operations of Rosneft for the third quarter of 2018 and nine months 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 September 30, 2018 and 2017 and June 30, 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, and 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 third quarter of 2018 and nine months 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 third quarter of 2018 crude oil and NGL production of the Company amounted to 58.7 mln tonnes, the production of natural and associated gas was 16.62 bcm.

In the third quarter of 2018 the Company's total crude oil processing amounted to 29.82 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 9 months ended September 30,		% change
	September 30, 2018	June 30, 2018		2018	2017	
Financial results, RUB billion						
Revenues and equity share in profits of associates and joint ventures	2,286	2,065	10.7%	6,073	4,305	41.1%
EBITDA	643	565	13.8%	1,593	1,010	57.7%
Net income attributable to Rosneft shareholders	142	228	(37.7)%	451	131*	>100%
Capital expenditures	227	229	(0.9)%	679	630	7.8%
Free cash flow **	509	221	>100%	872	201	>100%
Operational results						
Hydrocarbon production (th. boe per day)	5,826	5,706	2.1%	5,747	5,720	0.5%
Crude oil and NGL production (th. barrels per day)	4,726	4,604	2.6%	4,633	4,585	1.0%
Gas production (th. boe per day)	1,100	1,102	(0.2)%	1,114	1,135	(1.9)%
Production of petroleum products and petrochemical products in Russia (mln tonnes)	25.82	24.22	6.6%	73.93	72.54	1.9%
Production of petroleum products and petrochemical products outside Russia (mln tonnes)	3.10	3.11	(0.3)%	9.09	9.10	(0.1)%

* Net income for 9M 2017 is adjusted due to the allocation of the final purchase price of acquired assets in 2017.

** Free cash flow estimation 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 23 billion and interests paid of RUB 1 billion in the third quarter of 2018; offsetting of RUB 22 billion and interests paid of RUB 1 billion in the second quarter of 2018; offsetting of RUB 63 billion and interests paid of RUB 4 billion in the nine months of 2018, and offsetting of RUB 53 billion and interests paid of RUB 8 billion in the nine months of 2017.

For reference only: Financial highlights in USD terms*

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2018	June 30, 2018		2018	2017	
Financial results, USD billion						
Revenues and equity share in profits of associates and joint ventures	35.8	33.9	5.6%	100.6	76.3	31.8%
EBITDA	9.8	9.1	7.7%	25.7	17.3	48.6%
Net income attributable to Rosneft shareholders	2.3	3.6	(36.1)%	7.4	2.2	>100%
Capital expenditures	3.5	3.7	(5.4)%	11.1	10.8	2.8%
Free cash flow	7.8	3.6	>100%	13.9	3.4	>100%

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

Significant events of the third quarter of 2018

Rosneft confirms working capital reduction targets of more than RUB 200 billion for 2018

The Company has optimized its trading activities through the main marketing channels for crude oil and petroleum products, held talks with the major suppliers and contractors on improving the terms of payment and raising the efficiency of cooperation considering the current environment of contract services market.

Rosneft held Extraordinary General Meeting of shareholders

Shareholders approved the dividend payment, based on the first half of 2018 results, in the amount of RUB 14.58 per ordinary share of the Company, which is 50% of Rosneft's IFRS net income attributable to the Company's shareholders. The total amount of RUB 154.5 billion will be distributed by the Company as dividends.

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 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 varying quality from other producers. 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		Change	For 9 months ended September 30,		Change
	September 30, 2018	June 30, 2018		2018	2017	
World market	(USD per barrel)		%	(USD per barrel)		%
Brent (dated)	75.2	74.4	1.1%	72.2	51.9	39.2%
Urals (average Med and NWE)	74.2	72.5	2.4%	70.7	50.6	39.6%
Urals (FOB Primorsk)	72.9	71.2	2.4%	69.4	49.4	40.6%
Urals (FOB Novorossiysk)	73.2	71.8	2.1%	69.7	49.8	40.2%
Dubai	74.3	72.1	3.0%	70.1	51.2	37.1%
	(USD per tonne)		%	(USD per tonne)		%
Naphtha (av. FOB/CIF Med)	642	623	3.0%	608	448	35.6%
Naphtha (av. FOB Rotterdam/CIF NWE)	651	634	2.7%	619	459	35.0%
Naphtha (CFR Japan)	667	641	4.0%	630	468	34.5%
Fuel oil (av. FOB/CIF Med)	426	406	5.0%	396	290	36.5%
Fuel oil (av. FOB Rotterdam/CIF NWE)	421	398	5.8%	390	284	37.1%
High sulphur fuel oil 180 cst (FOB Singapore)	456	430	6.0%	420	311	35.0%
Gasoil (av. FOB/CIF Med)	663	649	2.1%	633	464	36.3%
Gasoil (av. FOB Rotterdam/CIF NWE)	658	646	1.9%	630	465	35.3%
Gasoil (FOB Singapore)	651	631	3.0%	620	464	33.6%
	(th. RUB per barrel)		%	(th. RUB per barrel)		%
Brent (dated)	4.93	4.60	7.3%	4.43	3.03	46.6%
Urals (average Med and NWE)	4.86	4.48	8.6%	4.34	2.95	47.0%
Urals (FOB Primorsk)	4.78	4.40	8.6%	4.27	2.88	48.1%
Urals (FOB Novorossiysk)	4.80	4.43	8.2%	4.29	2.90	47.6%
Dubai	4.87	4.46	9.2%	4.31	2.98	44.4%
	(th. RUB per tonne)		%	(th. RUB per tonne)		%
Naphtha (av. FOB/CIF Med)	42.1	38.5	9.2%	37.4	26.2	42.9%
Naphtha (av. FOB Rotterdam/CIF NWE)	42.7	39.2	8.9%	38.0	26.7	42.2%
Naphtha (CFR Japan)	43.7	39.6	10.3%	38.7	27.3	41.7%
Fuel oil (av. FOB/CIF Med)	27.9	25.1	11.4%	24.3	16.9	43.7%
Fuel oil (av. FOB Rotterdam/CIF NWE)	27.6	24.6	12.2%	24.0	16.6	44.4%
High sulphur fuel oil 180 cst (FOB Singapore)	29.9	26.6	12.4%	25.8	18.2	42.2%
Gasoil (av. FOB/CIF Med)	43.4	40.1	8.3%	38.9	27.1	43.5%
Gasoil (av. FOB Rotterdam/CIF NWE)	43.1	39.9	8.1%	38.7	27.1	42.5%
Gasoil (FOB Singapore)	42.6	39.0	9.2%	38.1	27.1	40.7%
Russian market (net of VAT, including excise tax)	(th. RUB per tonne)		%	(th. RUB per tonne)		%
Crude oil	23.3	22.0	5.7%	20.9	13.7	52.2%
Fuel oil	15.9	13.7	16.0%	13.4	9.1	47.5%
Summer diesel	40.1	40.3	(0.6)%	38.6	30.9	24.7%
Winter diesel	43.5	40.6	7.1%	40.7	32.7	24.2%
Jet fuel	38.6	36.9	4.8%	36.9	28.5	29.5%
High octane gasoline	40.8	42.9	(4.8)%	39.5	35.4	11.3%
Low octane gasoline	37.1	35.6	4.3%	35.7	31.6	13.0%

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 of 5.7% in the third quarter of 2018 compared with the second quarter of 2018 and of 5.0% compared with the nine months 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 the domestic gas market. Starting from July 2017, regulated gas price for all groups of end-users grew up by 3.9%. The indexation of gas price intended for subsequent implementation to all consumer groups was 3.4% in 2018 (since July - in part of the price for realization to the population, since 21th of August - in part of price for industrial consumers).

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 9 months ended September 30,	
	September 30, 2018	June 30, 2018	2018	2017
Consumer price index (CPI) for the period*	0.4%	1.3%	2.5%	1.7%
Average RUB/USD exchange rate for the period**	65.53	61.80	61.44	58.33
RUB/USD exchange rate at the end of the period	65.59	62.76	65.59	58.02
Average RUB/EUR exchange rate for the period	76.18	73.75	73.29	64.93
RUB/EUR exchange rate at the end of the period	76.23	72.99	76.23	68.45

Source: the Central Bank of the Russian Federation.

*Producer price index amounted to 16.1% q-o-q in the third quarter of 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 9 months ended September 30,		% change*
	September 30, 2018	June 30, 2018		2018	2017	
Mineral extraction tax						
Crude oil (RUB per tonne)	14,011	12,868	8.9%	12,441	7,600	63.7%
Export customs duty for crude oil						
Crude oil (USD per tonne)	134.9	120.5	11.9%	124.2	83.5	48.8%
Crude oil (RUB per tonne)	8,832	7,457	18.4%	7,654	4,865	57.3%
Crude oil (RUB per barrel)	1,193	1,007	18.4%	1,034	657	57.3%
Export customs duty for petroleum products						
Gasoline (RUB per tonne)	2,649	2,235	18.5%	2,294	1,458	57.4%
Naphtha (RUB per tonne)	4,856	4,096	18.5%	4,207	2,674	57.3%
Light and middle distillates (RUB per tonne)	2,649	2,235	18.5%	2,294	1,458	57.4%
Liquid fuels (fuel oil) (RUB per tonne)	8,832	7,457	18.4%	7,654	4,865	57.3%

*Calculated based on unrounded data.

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 47.7% and 47.8% in the third quarter of 2018 and the second quarter of 2018, respectively, and 47.6% in the nine months of 2018 and 43.9% in the nine months of 2017, respectively.

The mineral extraction tax and the export customs duty accounted for approximately 40.6% and 39.0% of Rosneft's total revenues in the third and second quarters of 2018, respectively, and approximately 39.6% in the nine months of 2018 and 35.4% in the nine months of 2017.

Tax withdrawing share in the financial results was up to 84.6% in the nine months 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 September 30, 2018 and June 30, 2018 and for the nine months ended September 30, 2018 and 2017, respectively

in RUB billions

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2018	June 30, 2018		2018	2017*	
Revenues and equity share in profits of associates and joint ventures						
Oil, gas, petroleum products and petrochemicals sales	2,245	2,025	10.9%	5,959	4,212	41.5%
Support services and other revenues	17	20	(15.0)%	58	56	3.6%
Equity share in profits of associates and joint ventures	24	20	20.0%	56	37	51.4%
Total revenues and equity share in profits of associates and joint ventures	2,286	2,065	10.7%	6,073	4,305	41.1%
Costs and expenses						
Production and operating expenses	170	130	30.8%	458	447	2.5%
Cost of purchased oil, gas, petroleum products and refining costs	299	285	4.9%	816	580	40.7%
General and administrative expenses	35	43	(18.6)%	113	115	(1.7)%
Pipeline tariffs and transportation costs	161	152	5.9%	473	444	6.5%
Exploration expenses	2	3	(33.3)%	7	9	(22.2)%
Depreciation, depletion and amortization	163	157	3.8%	472	440	7.3%
Taxes other than income tax	745	682	9.2%	1,995	1,369	45.7%
Export customs duty	289	240	20.4%	744	476	56.3%
Total costs and expenses	1,864	1,692	10.2%	5,078	3,880	30.9%
Operating income	422	373	13.1%	995	425	>100.0%
Finance income	30	29	3.4%	89	80	11.3%
Finance expenses	(81)	(76)	6.6%	(217)	(168)	29.2%
Other income	21	32	(34.4)%	59	4	>100.0%
Other expenses	(150)	(71)	>100.0%	(237)	(36)	>100.0%
Foreign exchange differences	27	72	(62.5)%	100	9	>100.0%
Cash flow hedges reclassified to profit or loss	(36)	(37)	(2.7)%	(109)	(109)	—
Income before income tax	233	322	(27.6)%	680	205	>100.0%
Income tax expense	(56)	(66)	(15.2)%	(152)	(44)	>100.0%
Net income	177	256	(30.9)%	528	161	>100.0%
Net income attributable to						
- Rosneft shareholders	142	228	(37.7)%	451	131	>100.0%
- non-controlling interests	35	28	25.0%	77	30	>100.0%

* Net income for 9M 2017 is adjusted due to allocation of the final purchase price of assets acquired 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 processing and 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 9 months ended September 30,		% change
	September 30, 2018	June 30, 2018		2018	2017	
Operational results						
Hydrocarbon production (th. boe per day)	5,826	5,706	2.1%	5,747	5,720	0.5%
Crude oil and NGL production (th. barrels per day)	4,726	4,604	2.6%	4,633	4,585	1.0%
Gas production (th. boe per day)	1,100	1,102	(0.2)%	1,114	1,135	(1.9)%
Hydrocarbon production (mln boe) ¹	498.4	482.0	3.4%	1,457.2	1,448.7	0.6%
Hydrocarbon production (mln toe)	72.4	70.1	3.3%	211.8	210.8	0.5%
Financial results, RUB billions						
EBITDA	598	534	12.0%	1,515	913	65.9%
Capital expenditures ²	206	211	(2.4)%	621	549	13.1%
Upstream operating expenses	96.0	92.7	3.6%	277.0	261.8	5.8%
Indicators per boe						
EBITDA, RUB/boe ¹	1,154	1,071	7.7%	1,003	612	63.9%
Capital expenditures, RUB/boe	413	438	(5.7)%	426	379	12.4%
Upstream operating expenses, RUB/boe	193	192	0.5%	190	181	5.0%
Upstream operating expenses, USD/boe ³	2.9	3.1	(6.5)%	3.1	3.1	–

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 9 months ended September 30,		% change
	September 30, 2018	June 30, 2018		2018	2017	
Revenues and equity share in profits of associates and joint ventures	1,335	1,223	9.2%	3,501	2,242	56.2%
<i>Including equity share in profits of associates and joint ventures</i>	23	18	27.8%	53	27	96.3%
Expenses net of depreciation including	795	724	9.8%	2,112	1,474	43.3%
Upstream operating expenses ¹	96	93	3.6%	277	262	5.8%
General and administrative expenses	17	16	6.3%	47	41	14.6%
Hydrocarbon procurement costs ²	7	6	16.7%	18	26	(30.8)%
Pipeline tariffs and transportation costs and other costs ³	6	11	(45.5)%	25	26	(3.8)%
Exploration expenses	3	4	(25.0)%	10	11	(9.1)%
Taxes other than income tax	666	594	12.1%	1,735	1,108	56.6%
Effect of prepayments offsetting	58	35	65.7%	126	145	(13.1)%
EBITDA	598	534	12.0%	1,515	913	65.9%

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 0.4 billion in the third and second quarters of 2018, respectively; and RUB 1.6 billion and RUB 1.7 billion in the nine months 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 9 months ended September 30,		% change
	September 30, 2018	June 30, 2018		2018	2017	
	(million of barrels)			(million of barrels)		
RN-Yuganskneftegaz (Western Siberia)	131.3	128.4	2.3%	386.7	363.1	6.5%
Projects of the Vankor group (Eastern Siberia)	40.4	40.7	(0.7)%	120.4	124.7	(3.4)%
Samotlorneftegaz (Western Siberia)	36.0	36.0	–	107.5	107.6	(0.1)%
Bashneft-Dobycha (Central Russia)	30.5	30.0	1.7%	90.6	92.0	(1.5)%
Orenburgneft (Central Russia)	28.4	27.0	5.2%	82.0	87.4	(6.2)%
Samaraneftegaz (Central Russia)	22.7	21.9	3.7%	65.8	70.1	(6.1)%
RN-Uvatneftegaz (Western Siberia)	18.8	19.6	(4.1)%	58.0	55.5	4.5%
Verkhnechonskneftegaz (Eastern Siberia)	15.0	14.9	0.7%	45.3	45.7	(0.9)%
Varyeganneftegaz (Western Siberia)	11.9	10.5	13.3%	32.4	35.1	(7.7)%
RN-Nyaganneftegaz (Western Siberia)	12.3	9.7	26.8%	30.8	33.7	(8.6)%
RN-Purneftegaz (Western Siberia)	9.9	8.5	16.5%	26.4	28.9	(8.7)%
Tomskneft (Western Siberia)	8.3	8.0	3.8%	24.3	26.3	(7.6)%
RN-Severnaya Neft (Timan Pechora)	5.9	5.5	7.3%	16.7	18.5	(9.7)%
Taas-Yuryakh (Far East)	6.1	4.9	24.5%	14.9	6.4	>100%
Offshore projects (Far East) ¹	5.1	4.3	18.6%	14.4	17.1	(15.8)%
Vostsibneftegaz (Eastern Siberia)	4.2	3.7	13.5%	12.2	2.1	>100%
Sorovskneft (Western Siberia)	2.9	2.8	3.6%	8.5	12.1	(29.8)%
Kondaneft (Western Siberia)	3.4	2.5	36.0%	7.4	0.1	>100%
Bashneft-Polyus (Timan Pechora) ²	2.1	2.0	5.0%	6.1	12.7	(52.0)%
Other	9.2	9.2	–	27.2	27.4	(0.7)%
Crude oil and NGL production by fully and proportionately consolidated enterprises	404.4	390.1	3.7%	1,177.6	1,166.5	1.0%
Slavneft (Western and Eastern Siberia)	13.1	12.7	3.1%	37.9	40.3	(6.0)%
Udmurtneft (Central Russia)	5.6	5.6	–	16.7	16.8	(0.6)%
Messoyakhaneftegaz (Western Siberia)	4.3	4.0	7.5%	12.0	8.3	44.6%
Other	7.4	6.6	12.1%	20.5	19.9	3.0%
Total share in production of associates and JV	30.4	28.9	5.2%	87.1	85.3	2.1%
Total crude oil and NGL production	434.8	419.0	3.8%	1,264.7	1,251.8	1.0%
Daily crude oil and NGL production (th. barrels per day)	4,726	4,604	2.6%	4 633	4,585	1.0%

¹Net of royalty and government share.

²Refers to 100% consolidated share in production.

As a result of the easing of restrictions under the Agreement OPEC+ in the third quarter of 2018, daily crude oil and NGL production amounted to 4.7 mln barrels per day, exceeding the daily production level of the second quarter of 2018 by 2.6% driven by effective production recovery at certain Brownfields (mainly, RN-Nyaganneftegaz, Varyeganneftegaz, RN-Purneftegaz, Orenburgneft).

The increase in daily crude oil and NGL production by 1.0% for the nine months of 2018 compared with the nine months of 2017 resulted from record production at one of the major Company's unit - RN-Yuganskneftegaz, and active development of new projects. In September, RN-Yuganskneftegaz set a record of daily oil production in the oil industry - 195.3 th. tonnes (1.45 mln barrels). This is the highest performance of RN-Yuganskneftegaz in the modern history of Russia, which was achieved thanks to the large-scale application of innovative technologies, as well as the introduction of its own scientific developments in drilling.

The Company continues to increase production, taking into account the proposals declared at the meeting of the Ministerial Monitoring Committee of the countries participating in the OPEC+ Agreement at the end of September 2018. As a result, the Company's oil and gas condensate production in October 2018 reached 4.78 mln barrels per day (or 4.7 mln barrels per day excluding international projects), which exceeds the level of October 2016 (before the start of the implementation of the Agreement OPEC+) by more than 100 th. barrels per day.

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In the nine months of 2018 the development drilling amounted to more than 9 mln meters, exceeding the level of the nine months of 2017 by 5%, with in-house drilling share remaining at about 60%. The number of new wells commissioned increased by 13% compared with corresponding period of 2017 (up to 2.6 th. units) with horizontal wells share up to 46% and the number of new horizontal wells with multistage fracs by 69%.

Production of Gas

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

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2018	June 30, 2018		2018	2017	
	bcm			bcm		
Sibneftegas (Western Siberia)	3.01	3.02	(0.3)%	9.07	9.39	(3.4)%
Projects of the Vankor group (Eastern Siberia) ²	1.87	1.88	(0.5)%	5.53	6.29	(12.1)%
Rosspan International (Western Siberia)	1.59	1.68	(5.4)%	4.94	4.80	2.9%
Samotlorneftegaz (Western Siberia)	1.36	1.48	(8.1)%	4.36	4.30	1.4%
RN-Purneftegaz (Western Siberia)	1.44	1.35	6.7%	4.16	4.54	(8.4)%
RN-Yuganskneftegaz (Western Siberia)	1.21	1.10	10.0%	3.51	3.39	3.5%
Varyeganneftegaz (Western Siberia)	0.98	0.99	(1.0)%	3.01	2.92	3.1%
Offshore projects (Far East) ^{2,3}	0.66	0.66	–	2.41	2.93	(17.7)%
RN-Krasnodarneftegaz (Southern Russia)	0.46	0.49	(6.1)%	1.49	1.91	(22.0)%
Zohr project (Egypt)	0.73	0.40	82.5%	1.29	–	–
RN-Nyaganneftegaz (Western Siberia)	0.50	0.39	28.2%	1.26	1.36	(7.4)%
Orenburgneft (Central Russia)	0.32	0.36	(11.1)%	1.04	1.32	(21.2)%
Tomskneft (Western Siberia)	0.24	0.21	14.3%	0.70	0.69	1.4%
Rosneft Vietnam B.V. (Vietnam)	0.18	0.21	(14.3)%	0.62	0.49	26.5%
Verkhnechonskneftegaz (Eastern Siberia)	0.26	0.27	(3.7)%	0.59	0.17	>100%
Samaraneftegaz (Central Russia)	0.13	0.12	8.3%	0.38	0.33	15.2%
Bashneft-Dobycha (Central Russia) ²	0.12	0.12	–	0.37	0.39	(5.1)%
RN-Sakhalinmorneftegaz (Far East)	0.09	0.08	12.5%	0.27	0.25	8.0%
RN-Uvatneftegaz (Western Siberia)	0.07	0.08	(12.5)%	0.22	0.18	22.2%
RN-Severnaya Neft (Timan Pechora)	0.05	0.04	25.0%	0.14	0.16	(12.5)%
Other	0.16	0.17	(5.9)%	0.55	0.53	3.8%
Total gas production by fully and proportionately consolidated enterprises	15.43	15.10	2.2%	45.91	46.34	(0.9)%
Purgaz (Western Siberia)	1.02	1.19	(14.3)%	3.53	3.96	(10.9)%
Slavneft (Western and Eastern Siberia)	0.12	0.12	–	0.35	0.34	2.9%
Other	0.05	0.05	–	0.16	0.22	(27.3)%
Total share in production of associates and JV	1.19	1.36	(12.5)%	4.04	4.52	(10.6)%
Total gas production	16.62	16.46	1.0%	49.95	50.86	(1.8)%
Natural gas	7.99	8.05	(0.7)%	24.01	23.63	1.6%
Associated gas	8.63	8.41	2.6%	25.94	27.23	(4.7)%
Daily gas production (mcm per day)	180.7	180.9	(0.1)%	183.0	186.3	(1.8)%

¹ Production volume equals extracted volume minus flared volume and gas used for NGL production. Gross gas production amounted to 18.4 bcm in the third quarter of 2018, 18.1 bcm in the second quarter of 2018; 55.0 bcm and 54.5 bcm in the nine months of 2018 and 2017, respectively.

² Including gas injection to maintain reservoir pressure.

³ Net of royalty and government share.

Gas production in the third quarter of 2018 amounted to 16.62 bcm, increasing by 1.0% compared with the second quarter of 2018. The increase in gas production was mainly driven by production at Zohr project and growth of associated gas production because of easing of restriction under OPEC+ Agreement.

The decrease in gas production in the nine months of 2018 of 1.8% compared with the same period of 2017 was mainly due to a reduction of associated 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 23 billion in the third quarter of 2018, which is mainly due to favourable dynamics of oil prices and resulted in the growth of share in profits of associates and joint ventures. In the second quarter of 2018, the equity share in the financial results of upstream associates and joint ventures was RUB 18 billion of profit.

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Considerable income growth in the nine months of 2018 compared with the same period of 2017 is mainly due to improved macroeconomic conditions and increased production volumes of Messoyakhneftegaz, together with foreign joint ventures income growth.

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 third quarter of 2018 compared with the second quarter of 2018 an increase in the upstream production and operating expenses of 3.6% (an increase of 0.5% per boe) to RUB 96 billion was mainly due to increased cost of repairs and maintenance of equipment and other oilfield services because of recovery of production level after easing of production restrictions under OPEC+ Agreement.

Upstream production and operating expenses increased in the nine months of 2018 by 5.8% to RUB 277 billion (an increase of 5.0% per boe) compared with the same period of 2017, which is mainly due to an increase in electricity tariffs, the cost of repair and maintenance of a growing stock of wells, 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 third quarter of 2018 and in the second quarter of 2018 were RUB 2 billion and RUB 3 billion, respectively. In the nine months of 2018 and 2017, exploration expenses amounted to RUB 7 billion and RUB 9 billion, respectively. The decrease of 22% is caused by implementation of large-scale work on seismic exploration in the strategically important regions of presence in 2017 and continued processing and interpretation of the data in the current year.

Mineral extraction tax

The increase in MET expense in the third quarter of 2018 compared with the second quarter of 2018 was mainly due to enacted MET rate increase of 8.9%, caused by higher Urals price (by 8.6% in RUB terms).

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

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2018	June 30, 2018		2018	2017	
	(thousand RUB, except %)					
Average enacted mineral extraction tax rate (per tonne)	14.01	12.87	8.9%	12.44	7.60	63.7%
Actual mineral extraction tax expense per tonne of oil produced	11.84	10.88	8.8%	10.46	6.60	58.5%
Actual mineral extraction tax expense per tonne of oil equivalent produced ¹	9.68	8.87	9.1%	8.52	5.38	58.4%
	(RUB, except %)					
Average actual gas extraction tax rate per thousand cubic meters	558	548	1.8%	552	519	6.4%
Actual extraction tax rate on gas condensate ² per tonne	4,611	4,477	3.0%	4,343	3,644	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 third quarter of 2018 and in the second 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 are set in the table below:

	For 3 months ended			For 9 months ended September 30,		
	September 30, 2018	June 30, 2018	% change	2018	2017	% change
Operational results, mln tonne						
Crude oil processing at refineries	29.82	28.12	6.0%	85.51	84.33	1.4%
<i>Processing at Company's own refineries in Russia</i>	24.72	23.07	7.2%	70.62	69.28	1.9%
<i>Processing at Company's own refineries outside Russia</i>	3.00	3.04	(1.3)%	8.91	8.98	(0.8)%
<i>Processing at Associates' refineries</i>	2.10	2.01	4.5%	5.98	6.07	(1.5)%
Financial results, RUB billion						
EBITDA	60	42	42.9%	117	143	(18.2)%
Capital expenditures of refineries ¹	13	11	18.2%	34	41	(17.1)%
Operating expenses of processing in Russia	32.9	29.3	12.3%	90.6	83.8	8.1%
Operating expenses of processing outside Russia	6.5	7.4	(12.2)%	19.7	14.3	37.8%
Indicators per tonne of the output, RUB per tonne²						
EBITDA ³	2,156	1,532	40.7%	1,444	1,712	(15.7)%
Capital expenditure of refineries	469	421	11.4%	428	524	(18.3)%
Operating expenses for processing in Russia	1,331	1,270	4.8%	1,283	1,210	6.0%
Operating expenses for processing outside Russia	2,167	2,434	(11.0)%	2,211	1,592	38.9%

¹Refer to "Capital expenditures".

²Calculated from unrounded data.

³Excluding effect of associates and joint ventures.

Downstream EBITDA

	For 3 months ended			For 9 months ended September 30,		
	September 30, 2018	June 30, 2018	% change	2018	2017	% change
	RUB billion			RUB billion		
Revenues and equity share in profits of associates and joint ventures	2,304	2,061	11.8%	6,100	4,377	39.4%
<i>Including equity share in profits of associates and joint ventures</i>	–	2	(100)%	2	9	(77.8)%
Expenses net of depreciation including	2,244	2,019	11.1%	5,983	4,234	41.3%
Operating expenses at refineries, cost of additives and materials procured for processing	47	43	9.3%	131	116	12.9%
Operating expenses of retail companies	14	14	–	40	37	8.1%
Cost of purchased oil, gas, petroleum products and refining costs including intersegment turnover	1,641	1,503	9.2%	4,324	2,871	50.6%
Administrative expenses, including allowance for expected credit losses	5	16	(68.8)%	31	27	14.8%
Pipeline tariffs and transportation costs and other costs	160	151	6.0%	470	440	6.8%
Taxes other than income tax	86	95	(9.5)%	275	268	2.6%
Export customs duty	289	240	20.4%	744	476	56.3%
<i>Effect of intragroup oil products inventory and others (income)/expense</i>	22	(17)	–	19	(3)	>100%
EBITDA	40	16	>100%	66	145	(54.5)%
<i>Price effect of intragroup crude oil inventory (income)/expense</i>	(22)	(26)	23.1%	(51)	2	–
EBITDA adjusted¹	60	42	42.9%	117	143	(18.2)%

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 9 months ended September 30,		%
	September 30, 2018	June 30, 2018		2018	2017	
	mln of tonnes			mln of tonnes		
Crude oil processing at refineries in Russia ¹	26.77	25.08	6.7%	76.55	75.19	1.8%
Crude oil processing at refineries outside Russia	3.05	3.04	0.3%	8.96	9.14	(2.0)%
including crude oil processing in Germany ²	3.00	3.04	(1.3)%	8.91	8.98	(0.8)%
including crude oil processing in Belarus	0.05	0.00	100.0%	0.05	0.16	(68.8)%
Total Group crude oil processing	29.82	28.12	6.0%	85.51	84.33	1.4%
Petroleum product output:						
High octane gasoline	3.98	3.54	12.4%	11.18	11.33	(1.3)%
Low octane gasoline	0.03	0.02	50.0%	0.07	0.09	(22.2)%
Naphtha	1.64	1.51	8.6%	4.72	4.58	3.1%
Diesel	8.81	8.22	7.2%	25.21	24.71	2.0%
Fuel oil	6.17	5.87	5.1%	17.69	17.28	2.4%
Jet fuel	1.07	0.88	21.6%	2.76	2.48	11.3%
Petrochemicals	0.31	0.41	(24.4)%	1.15	1.14	0.9%
Other	3.81	3.77	1.1%	11.15	10.93	2.0%
Product output at Rosneft's refineries in Russia	25.82	24.22	6.6%	73.93	72.54	1.9%
Product output at refineries outside Russia	3.10	3.11	(0.3)%	9.09	9.10	(0.1)%
including crude oil output in Germany	3.06	3.11	(1.6)%	9.05	8.96	1.0%
including product output in Belarus	0.04	0.00	100.0%	0.04	0.14	(71.4)%
Total Group product output	28.92	27.33	5.8%	83.02	81.64	1.7%

¹Including processing at YANOS refinery.

²Excluding additives received for processing.

Rosneft's total refinery throughput in Russia in the third quarter of 2018 increased and amounted to 26.77 mln tonnes. If compared to the second quarter of 2018 the increase is mainly due to the regulation of utilisation rate in terms of current demand.

In the third quarter of 2018, processing at the refineries in Germany decreased by 1.3% in comparison with the second quarter of 2018 that is mainly caused by unscheduled suspension of production in September 2018.

In the nine months of 2018 crude oil production at the German refineries decreased by 0.8% if compared with the same period of 2017, also, mainly due to unscheduled suspension of production in September 2018.

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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 third quarter of 2018 compared with the second quarter of 2018 is mainly due to worldwide crude oil price growth (7.3% in RUB terms compared to the second quarter of 2018) was accompanied by increase in petroleum products sales volumes.

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 9 months ended September 30,				
	September 30, 2018		June 30, 2018		% change	2018		2017		% change
	% of revenue		% of revenue			% of revenue		% of revenue		
RUB billion, except %										
Crude oil										
International Sales to non-CIS	938	41.2%	868	42.0%	8.1%	2,489	40.9%	1,611	37.3%	54.5%
Europe and other directions	444	19.6%	447	21.6%	(0.7)%	1,233	20.2%	941	21.7%	31.0%
Asia	494	21.6%	421	20.4%	17.3%	1,256	20.7%	670	15.6%	87.5%
International sales to CIS	55	2.4%	55	2.7%	–	154	2.5%	103	2.4%	49.5%
Domestic sales	35	1.5%	31	1.5%	12.9%	95	1.6%	77	1.8%	23.4%
Total crude oil	1,028	45.1%	954	46.2%	7.8%	2,738	45.0%	1,791	41.5%	52.9%
Gas	55	2.4%	50	2.4%	10.0%	164	2.7%	154	3.6%	6.5%
Petroleum products										
International Sales to non-CIS	643	28.1%	590	28.5%	9.0%	1,732	28.5%	1,182	27.5%	46.5%
Europe and other directions	476	20.8%	443	21.4%	7.4%	1,309	21.5%	872	20.3%	50.1%
Asia	167	7.3%	147	7.1%	13.6%	423	7.0%	310	7.2%	36.5%
International Sales to CIS	44	1.9%	38	1.8%	15.8%	109	1.8%	78	1.8%	39.7%
Domestic sales	423	18.5%	344	16.7%	23.0%	1,078	17.8%	896	20.8%	20.3%
Sales of bunker fuel to end-users	27	1.2%	22	1.1%	22.7%	61	1.0%	40	0.9%	52.5%
Total petroleum products	1,137	49.7%	994	48.1%	14.4%	2,980	49.1%	2,196	51.0%	35.7%
Sales of LNG	–	–	–	–	–	–	–	11	0.3%	–
Petrochemical products	25	1.1%	27	1.3%	(7.4)%	77	1.3%	60	1.4%	28.3%
International sales	10	0.4%	11	0.5%	(9.1)%	31	0.5%	22	0.5%	40.9%
Domestic sales	15	0.7%	16	0.8%	(6.3)%	46	0.8%	38	0.9%	21.1%
Sales of petroleum products, petrochemicals and LNG	1,162	50.8%	1,021	49.4%	13.8%	3,057	50.4%	2,267	52.7%	34.8%
Support services and other revenues	17	0.7%	20	1.0%	(15.0)%	58	1.0%	56	1.3%	3.6%
Equity share in profits of associates and joint ventures	24	1.0%	20	1.0%	20.0%	56	0.9%	37	0.9%	51.4%
Total revenues and equity share in profits of associates and joint ventures	2,286	100.0%	2,065	100.0%	10.7%	6,073	100.0%	4,305	100.0%	41.1%

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 9 months ended September 30,				
	September 30, 2018		June 30, 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	213.2	45.9%	208.8	46.6%	2.1%	622.7	46.0%	625.6	46.9%	(0.5)%
Europe and other directions	97.0	20.9%	105.9	23.6%	(8.4)%	303.6	22.4%	365.0	27.4%	(16.8)%
Asia	116.2	25.0%	102.9	23.0%	12.9%	319.1	23.6%	260.6	19.5%	22.4%
International Sales to CIS	15.5	3.3%	16.3	3.6%	(4.9)%	48.1	3.6%	46.6	3.5%	3.2%
Domestic	10.4	2.2%	9.6	2.2%	8.3%	31.1	2.3%	36.3	2.7%	(14.3)%
Total crude oil	239.1	51.4%	234.7	52.4%	1.9%	701.9	51.9%	708.5	53.1%	(0.9)%
	mln tonnes		mln tonnes			mln tonnes		mln tonnes		
International Sales to non-CIS	28.8	45.9%	28.2	46.6%	2.1%	84.1	46.0%	84.5	46.9%	(0.5)%
Europe and other directions	13.1	20.9%	14.3	23.6%	(8.4)%	41.0	22.4%	49.3	27.4%	(16.8)%
Asia	15.7	25.0%	13.9	23.0%	12.9%	43.1	23.6%	35.2	19.5%	22.4%
International Sales to CIS	2.1	3.3%	2.2	3.6%	(4.9)%	6.5	3.6%	6.3	3.5%	3.2%
Domestic sales	1.4	2.2%	1.3	2.2%	8.3%	4.2	2.3%	4.9	2.7%	(14.3)%
Total crude oil	32.3	51.4%	31.7	52.4%	1.9%	94.8	51.9%	95.7	53.1%	(0.9)%
Petroleum products										
International Sales to non-CIS	16.9	26.9%	16.8	27.8%	0.6%	50.6	27.8%	48.1	26.7%	5.2%
Europe and other directions	12.3	19.6%	12.6	20.8%	(2.4)%	38.1	20.9%	34.2	19.0%	11.4%
Asia	4.6	7.3%	4.2	7.0%	9.5%	12.5	6.9%	13.9	7.7%	(10.1)%
International Sales to CIS	1.1	1.8%	1.0	1.7%	10.0%	3.0	1.6%	3.1	1.7%	(3.2)%
Domestic sales	10.9	17.4%	9.3	15.4%	17.2%	29.6	16.2%	28.7	15.9%	3.1%
Sales of bunker fuel to end-users	0.9	1.4%	0.9	1.5%	–	2.3	1.3%	2.1	1.2%	9.5%
Total petroleum products	29.8	47.6%	28.0	46.4%	6.4%	85.5	46.9%	82.0	45.5%	4.3%
Sales of LNG	–	–	–	–	–	–	–	0.6	0.3%	–
Petrochemical products	0.6	1.0%	0.7	1.2%	(14.3)%	2.1	1.2%	2.0	1.1%	5.0%
International sales	0.2	0.4%	0.3	0.5%	(33.3)%	0.8	0.5%	0.8	0.4%	–
Domestic sales	0.4	0.6%	0.4	0.7%	–	1.3	0.7%	1.2	0.7%	8.3%
Total crude oil and products, LNG	62.7	100.0%	60.4	100.0%	3.8%	182.4	100.0%	180.3	100.0%	1.2%
	bcm		bcm			bcm		bcm		
Gas sales volumes	14.45		14.39		0.4%	45.40		46.32		(2.0)%

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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 9 months ended September 30,				% change
	September 30, 2018		June 30, 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	4.71	34.9	4.32	32.0	9.1%	4.22	31.2	2.82	20.8	50.0%
Europe and other directions**	4.59	34.0	4.21	31.2	9.0%	4.09	30.3	2.75	20.3	49.3%
Asia**	4.82	35.7	4.44	32.9	8.5%	4.35	32.2	2.92	21.7	48.4%
Crude oil, CIS	3.53	26.1	3.34	24.7	5.7%	3.19	23.6	2.19	16.2	45.7%
Petroleum products, non- CIS		38.2		35.4	7.9%		34.5		24.8	39.1%
Europe and other directions		38.9		35.3	10.2%		34.5		25.7	34.2%
Asia		36.3		35.9	1.1%		34.2		22.5	52.0%
Petroleum products, CIS		40.6		36.4	11.5%		36.1		25.4	42.1%
Sales of LNG		–		–	–		–		18.9	–
Petrochemical products		41.1		38.2	7.6%		37.8		28.3	33.6%
Average domestic prices										
Crude oil	3.40	25.2	3.27	24.2	4.1%	3.09	22.8	2.11	15.7	45.2%
Petroleum products		38.8		37.1	4.6%		36.4		31.2	16.7%
Gas (th. RUB./the cubic meter)***		3.25		3.22	0.9%		3.32		3.29	0.9%
Petrochemical products		38.1		37.0	3.0%		35.5		31.7	12.0%
Sales of bunker fuel to end-users		29.3		26.6	10.2%		26.5		19.5	35.9%

*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 44 billion and RUB 38 billion in the third quarter of 2018 and in the second quarter of 2018, respectively; RUB 112 billion and RUB 71 billion in the nine months 2018 and 2017, respectively).

***Including gas sales outside Russian Federation average gas prices were 3.80 th. RUB./th. cubic meter in the third quarter of 2018 and 3.50 th. RUB./th. cubic meter in the second quarter of 2018; 3.62 th. RUB./th. cubic meter and 3.32 th. RUB./th. cubic meter in the nine months 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 third quarter of 2018 compared with the second quarter of 2018 was due to the upturn of 9.1% in average price or RUB 77 billion and growth of sales volumes by 2.1% (favorable impact on revenue of RUB 16 billion).

Revenue growth of international crude oil sales to non-CIS countries in the nine months of 2018 compared with the same period of 2017 was mostly due to the growth of average sales price of 50.0% (positive impact on revenue of RUB 857 billion).

International Crude Oil Sales to CIS

Revenue of international crude oil sales to CIS countries in the third quarter of 2018 remained at the level of the second quarter of 2018. The growth of average sales price of 5.7% (favorable impact on revenues of RUB 2 billion) was offset by a decrease in sales volume by 4.9% (negative impact on revenue of RUB 2 billion).

Revenue from international crude oil sales to CIS countries increased in the nine months of 2018 compared with the same period of 2017 that was due to growth in average sales price of 45.7% (positive impact on revenues of RUB 48 billion) and was accompanied by sales volume growth of 3.2% (favorable impact on revenue of RUB 3 billion).

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Domestic Sales of Crude Oil

Revenue growth of domestic sales of crude oil in the third quarter of 2018 compared with the second quarter of 2018 was due to upturn of average sales price of 4.1% (positive impact on revenue of RUB 2 billion), was accompanied by volume upturn of 8.3% (favorable impact on revenue of RUB 2 billion).

Revenue upturn of domestic sales of crude oil in the nine months of 2018 compared with the same period of 2017 is mainly attributable to upturn of average sales price of 45.2% (positive impact on revenue of RUB 29 billion) and was partially offset by downturn in crude oil sales volumes of 14.3% (negative effect on revenues of RUB 11 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 third and second quarters of 2018*:

	For 3 months ended						% change		
	September 30, 2018			June 30, 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	9	0.2	47.8	6	0.1	42.1	50.0%	100.0%	13.5%
Naphtha	62	1.5	42.1	61	1.6	38.7	1.6%	(6.3)%	8.8%
Diesel (Gasoil)	181	4.3	41.7	147	3.7	38.9	23.1%	16.2%	7.2%
Fuel oil	188	6.5	28.8	156	6.3	26.3	20.5%	3.2%	9.5%
Other	7	0.2	40.1	6	0.2	35.0	16.7%	–	14.6%
Petroleum products exported to non-CIS	447	12.7	35.2	376	11.9	32.2	18.9%	6.7%	9.3%
Petroleum products sold from German refineries	150	2.8	53.7	141	2.8	49.5	6.4%	–	8.5%
Petroleum products bought and sold outside Russia	46	1.4	35.3	73	2.1	34.5	(37.0)%	(33.3)%	2.3%
Trading of petroleum products outside Russia	196	4.2	47.9	214	4.9	43.1	(8.4)%	(14.3)%	11.1%
Total	643	16.9	38.2	590	16.8	35.4	9.0%	0.6%	7.9%

*Average price is calculated from unrounded figures.

Revenue growth of the international sales of petroleum products to non-CIS countries in the third quarter of 2018 compared with the second quarter of 2018 was due to upturn in average price up to 7.9% (positive impact on revenues of RUB 47 billion) and was accompanied by sales volumes increase of 0.6% (favorable impact on revenues of RUB 6 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 nine months of 2018 and 2017*:

	For 9 months ended September 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	24	0.6	41.0	16	0.5	34.7	50.0%	20.0%	18.2%
Naphtha	171	4.6	37.4	124	4.7	26.5	37.9%	(2.1)%	41.1%
Diesel (Gasoil)	463	12.3	37.5	312	11.9	26.0	48.4%	3.4%	44.2%
Fuel oil	474	18.9	25.6	329	18.9	18.0	44.1%	–	42.2%
Other	20	0.6	35.7	19	0.8	24.8	5.3%	(25.0)%	44.0%
Petroleum products exported to non-CIS	1,152	37.0	31.4	800	36.8	22.0	44.0%	0.5%	42.7%
Petroleum products sold from German refineries	405	8.3	48.7	300	7.8	38.4	35.0%	6.4%	26.8%
Petroleum product purchased and sold outside Russia	175	5.3	33.3	82	3.5	23.4	>100%	51.4%	42.3%
Trading of petroleum products outside Russia	580	13.6	42.8	382	11.3	33.8	51.8%	20.4%	26.6%
Total	1,732	50.6	34.5	1,182	48.1	24.8	46.5%	5.2%	39.1%

*Average price is calculated based on the unrounded figures.

Revenue from sales of petroleum products to non-CIS countries increase in the nine months of 2018 compared with the same period of 2017 was mainly attributable to average price upturn of 39.1% (favorable impact on revenues of RUB 485 billion), and was accompanied by sales volumes increase of 5.2% (favorable impact on revenues of RUB 67 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 increase in the international sales of petroleum products to CIS countries in the third quarter of 2018 compared with the second quarter of 2018 attributable to average price upturn of 11.5% (favorable impact on revenues of RUB 5 billion) and was accompanied by the upturn in sales volumes of 10.0% (favorable impact on revenues of RUB 1 billion).

Revenue from international sales of petroleum products to CIS countries increased in the nine months of 2018 compared with the same period of 2017 that was mainly attributable to average price upturn of 42.1% (favourable impact on revenues of RUB 33 billion), and was partially offset by sales volumes downturn by 3.2% (unfavorable impact on revenues of RUB 2 billion).

Sales of bunker fuel

The Company sells bunker fuel (fuel oil, low-viscosity marine fuel, diesel fuel and other) 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 third quarter of 2018 compared with the second quarter of 2018 increased mainly due to upturn in average sales price by 10.2% (favorable effect on revenue of RUB 5 billion).

Revenues growth of sales of bunker fuel in the nine months of 2018 compared with the same period of 2017 was due to average sales price upturn of 35.9% (favorable effect on revenue of RUB 17 billion) and growth of sales volume by 9.5% (favorable effect on revenue of RUB 4 billion).

Petrochemical Products Sales

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

In the third quarter of 2018 compared with the second quarter of 2018 international revenues decreased due to downturn of sales volume by 33.3% (negative impact on revenues of RUB 4 billion) was partially offset by upturn in average sales price by 7.6% (positive impact on revenues of RUB 3 billion). Domestic sales of petrochemical products in the third quarter of 2018 compared with the second quarter of 2018 decreased by 6.3% and amounted to RUB 15 billion.

In the nine months of 2018 compared with the same period of 2017 international revenues increased due to upturn in average sales price by 33.6% (positive impact on revenues of RUB 9 billion). Domestic sales of petrochemical products in the nine months of 2018 compared with the nine months of 2017 increased mainly due to increase in sales volumes of 8.3% (positive impact on revenues of RUB 3 billion) and was accompanied by upturn in average sales price by 12.0% (positive impact on revenues of RUB 5 billion).

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Gas Sales

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

	For 3 months ended			For 9 months ended		
	September 30, 2018	June 30, 2018	% change	September 30, 2018	September 30, 2017	% change
	RUB billion			RUB billion		
Revenue						
In the Russian Federation	44.2	44.3	(0.2)%	144.4	150.6	(4.1)%
Outside the Russian Federation	10.7	6.1	75.4%	19.9	3.2	>100%
Total	54.9	50.4	8.9%	164.3	153.8	6.8%
	bcm			bcm		
Sales volumes						
In the Russian Federation	13.57	13.80	(1.7)%	43.54	45.81	(5.0)%
Outside the Russian Federation	0.88	0.59	49.2%	1.86	0.51	>100%
Total	14.45	14.39	0.4%	45.40	46.32	(2.0)%
	th. RUB/th. of cubic metres			th. RUB/th. of cubic metres		
Average price						
In the Russian Federation	3.25	3.22	0.9%	3.32	3.29	0.9%
Outside the Russian Federation	12.29	10.19	20.6%	10.73	6.14	74.8%
Average price of the Company	3.80	3.50	8.6%	3.62	3.32	9.0%

*Average price is calculated from unrounded figures.

Decrease in gas sales volumes in the Russian Federation of 1.7% in the third quarter of 2018 compared with the second quarter of 2018 was due seasonal factor that was partially offset by average sales price upturn of 0.9%. Significant growth of gas revenues outside Russia was mainly due to the production growth at Zohr project.

In the Russian Federation gas sales downturn in the nine months of 2018 compared with the same period of 2017 resulted from decrease in gas sales volumes of 5.0% (negative impact on revenues of RUB 7.5 billion), caused by reduction of gas production and procurement, that was partially offset by the average sales price upturn of 0.9% (positive impact on revenues of RUB 1.3 billion). Significant growth of gas revenues outside Russia was mainly due to the production growth at Zohr project.

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					For 9 months ended September 30,				
	September 30, 2018		June 30, 2018		% change	2018		2017		% change
	% of total revenue		% of total revenue			% of total revenue		% of total revenue		
	billion RUB, except %									
Drilling services	0.7	4.0%	0.5	2.4%	40.0%	2.0	3.4%	3.4	6.0%	(41.2)%
Sales of materials	6.5	37.1%	9.5	46.3%	(31.6)%	23.3	39.8%	19.5	34.7%	19.5%
Repairs and maintenance services	0.4	2.3%	0.5	2.4%	(20.0)%	1.4	2.4%	1.9	3.4%	(26.3)%
Rent services	1.4	8.0%	1.1	5.4%	27.3%	3.7	6.3%	4.0	7.1%	(7.5)%
Construction services	0.2	1.1%	–	–	–	0.5	0.9%	0.3	0.5%	66.7%
Transport services	2.9	16.6%	3.9	19.0%	(25.6)%	10.9	18.6%	11.0	19.5%	(0.9)%
Electric power sales and transmission	2.1	12.0%	2.2	10.7%	(4.5)%	7.4	12.6%	6.9	12.3%	7.2%
Other revenues	3.3	18.9%	2.8	13.8%	17.9%	9.3	16.0%	9.3	16.5%	0.0%
Total	17.5	100.0%	20.5	100.0%	(14.6)%	58.5	100.0%	56.3	100.0%	3.9%

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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 billion in the nine months of 2018. In the nine months of 2017, the equity income was RUB 9 billion.

Downstream production and operating costs

Downstream operating expenses include*:

	For 3 months ended		% change	For 9 months ended		% change
	September 30, 2018	June 30, 2018		September 30,		
	2018	2018		2018	2017	
	billion RUB, except %					
Operating expenses at refineries in Russia	32.9	29.3	12.3%	90.6	83.8***	8.1%
Operating expenses at refineries and cost of additives and materials procured for processing outside Russia	13.2	14.4	(8.3)%	40.0	31.8	25.8%
Operating expenses of retail companies including:	14.1	13.4	5.2%	39.8	36.8	8.2%
<i>operating expenses</i>	9.5	9.3	2.2%	27.9	25.8	8.1%
<i>purchase cost of other inventories</i>	4.6	4.1	12.2%	11.9	11.0	8.2%
Downstream operating expenses	60.2	57.1	5.4%	170.4	152.4	11.8%
<i>Intragroup inventory effect and others</i>	2.8	(43.1)	–	(31.3)	(0.8)***	–
Total Downstream Operating expenses**	63.0	14.0	>100%	139.1	151.6	(8.2)%

*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.

***Adjusted for intercompany purchases.

Operating expenses of refineries and retail companies (net of intragroup inventory effect) in the third quarter of 2018 compared with the second quarter of 2018 increased by 5.4% due to scheduled production growth.

Operating expenses of refineries and retail companies (net of intragroup inventory effect) in the nine months of 2018 compared with the nine months of 2017 increased by 11.8%, that is mainly due to growth of volumes of scheduled turnarounds at refineries, higher electricity expenses, indexation of wages 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		% change	For 9 months ended		% change
	September 30, 2018	June 30, 2018		September 30,		
	2018	2018		2018	2017	
Operating expenses at refineries in Russia (RUB billion)	32.9	29.3	12.3%	90.6	83.8	8.1%
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne)	1,378	1,310	5.2%	1,326	1,252	5.9%
Operating expenses per tonne of crude oil throughput (RUB per tonne)	1,331	1,270	4.8%	1,283	1,210	6.0%
Operating expenses at refineries outside Russia (RUB billion)*	6.5	7.4	(12.2)%	19.7	14.3	37.8%
Operating expenses per tonne of petroleum product and petrochemical output (RUB per tonne)	2,124	2,379	(10.7)%	2,177	1,596	36.4%
Operating expenses per tonne of crude oil throughput (RUB per tonne)	2,167	2,434	(11.0)%	2,211	1,592	38.9%
Total operating expenses at Rosneft's refineries (RUB billion)	39.4	36.7	7.4%	110.3	98.1	12.4%

*Refineries outside Russia also procured the additives and materials for processing: in the third quarter of 2018 – RUB 6.7 billion, in the second quarter of 2018 – RUB 7.0 billion; in the nine months of 2018 and 2017 – RUB 20.3 billion and RUB 17.5 billion, respectively.

Operating expenses of Rosneft's refineries in Russia in the third quarter of 2018 compared with the second quarter of 2018 increased by 12.3%, mainly due to scheduled increase in utilisation rate in terms of current demand.

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 Rosneft's refineries in Russia in the nine months of 2018 compared with the nine months of 2017 increased by 8.1% because of higher utilization rate, scheduled increase in maintenance services, growth of electricity tariffs and indexation of wages.

In the third quarter of 2018 compared with the second quarter of 2018 operating costs per tonne of petroleum product at Rosneft's refineries in Russia increased by 4.8% that was mostly due to increased production of high-octane gasoline.

Operating expenses of Rosneft's refineries outside Russia amounted to RUB 6.5 billion in the third quarter of 2018. If compared with the RUB 7.4 billion, in the second quarter of 2018, the expenses decreased by 12.2% due to reduced production capacity, compensated slightly by RUB depreciation against EUR of 3.2%. Operating expenses per tonne of crude oil throughput of Rosneft's refineries outside Russia in the third quarter of 2018 compared with the second quarter of 2018 decreased by 11.0% mainly due to decreased maintenance and turnaround expenses in the second quarter of 2018.

The increase in the operating expenses of Rosneft's refineries outside Russia (and operating costs per tonne) in the nine months of 2018 compared with the nine months of 2017 was mainly driven by growth of planned turnaround expenses and RUB depreciation against EUR of 11.4%.

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 9 months ended		% change
	September 30, 2018	June 30, 2018		September 30, 2018	2017	
Crude oil and gas procurement						
Cost of crude oil and gas procured (RUB billion)**	242	202	19.8%	610	446	36.8%
including Domestic market	106	94	12.8%	286	189	51.3%
International market	136	108	25.9%	324	257	26.1%
Volume of crude oil procured (millions of barrels)	61.0	54.9	11.1%	167.0	177.4	(5.9)%
including Domestic market	29.9	27.7	7.9%	85.9	80.6	6.6%
International market	31.1	27.2	14.3%	81.1	96.8	(16.2)%
Volume of gas procured (bcm)	1.93	2.33	(17.2)%	8.86	10.49	(15.5)%
LNG procurement						
Cost of LNG (RUB billion)	–	–	–	–	10	–
Volume of LNG procured (millions of tonnes)	–	–	–	–	0.56	–
Petroleum products procurement						
Cost of petroleum products procured (RUB billion)***	50	75	(33.3)%	185	102	81.4%
Volume of petroleum products procured (millions of tonnes)	1.56	2.32	(32.8)%	5.91	4.23	39.7%
Crude oil, gas and petroleum, products refining services						
Cost of refining of crude oil under processing agreements (RUB billion)	7.3	7.4	(1.4)%	21.5	21.3	0.9%
Volumes of crude oil and petroleum products produced under processing agreements (millions of tonnes)	2.1	2.0	5.0%	5.9	7.3	(19.2)%
Volumes of gas produced under processing agreements (bcm)	2.6	2.7	(3.7)%	8.0	7.6	5.3%
Cost of products procured for blending on retail companies (RUB billion)	7.8	6.8	14.7%	20.0	18.4	8.7%
Including intercompany purchases (RUB billion)	7.8	6.8	14.7%	20.0	17.8	12.4%
Total cost of procured oil, gas and petroleum products, and refining costs (RUB billion)	299	285	4.9%	816	580	40.7%

*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 third quarter of 2018, RUB 6 billion in the second quarter of 2018 and RUB 17 billion and RUB 26 billion in the nine months 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.

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Crude oil and Gas procurement

Rosneft purchases crude oil primarily from its associates to process it at its 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 and it caused the growth of crude oil purchases in the third quarter if compared to the second quarter of 2018.

The increase in crude oil and gas procurement of 19.8% in the third quarter of 2018 compared with the previous quarter is mainly attributable to the growth of trading activity and growth of crude oil prices.

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

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2018	June 30, 2018		2018	2017	
	mln barrels			mln barrels		
International market	31.1	27.2	14.3%	81.1	96.8	(16.2)%
Udmurtneft	6.2	5.8	6.9%	18.1	17.7	2.3%
Slavneft	13.0	11.7	11.1%	36.8	38.3	(3.9)%
Messoyahaneftgaz	4.3	3.9	10.3%	11.9	8.3	43.4%
Lukoil-Reservnefteproduct	0.2	0.2	–	0.6	1.4	(57.1)%
Others	6.2	6.1	1.6%	18.5	14.9	24.2%
Total	61.0	54.9	11.1%	167.0	177.4	(5.9)%

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 10.9 mln barrels and 9.7 mln barrels in the third quarter of 2018 and in the second quarter of 2018, respectively; 29.3 mln barrels and 25.5 mln barrels in the nine months of 2018 and 2017, respectively.

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 third and second quarters of 2018, respectively:

	For 3 months ended						% change		
	September 30, 2018			June 30, 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	0.20		6	0.19		0.0%	5.3%	
High octane gasoline	2	0.05	43.4	2	0.07	39.0	0.0%	(28.6)%	11.3%
Diesel	3	0.08	48.7	3	0.07	42.6	0.0%	14.3%	14.3%
Jet fuel	0	0.00	47.2	0	0.00	42.6	–	–	10.8%
Others	1	0.07	18.1	1	0.05	40.2	0.0%	40.0%	(55.0) **%
<i>Petroleum products procured outside Russia</i>	44	1.36	32.2	69	2.13	32.5	(36.2)%	(36.2)%	0.9%
Total	50	1.56		75	2.32		(33.3)%	(32.8)%	

*Calculated based on unrounded data.

** The decrease is due to product mix.

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

	For 9 months ended September 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>	19	0.59		20	0.69		(5.0)%	(14.5)%	
High octane gasoline	7	0.21	34.2	6	0.18	32.3	16.7%	16.7%	5.9%
Diesel	9	0.23	38.5	8	0.24	34.8	12.5%	(4.2)%	10.6%
Jet fuel	0	0.00	42.3	0	0.01	28.5	–	–	48.4%
Others	3	0.15	19.8	6	0.26	24.3	(50.0)%	(42.3)%	(18.5)%
<i>Petroleum products and petrochemicals procured outside Russia</i>	166	5.32	31.18	82	3.54	23.1	>100%	50.3%	35.0%
<i>Including petroleum products procurement</i>	<i>166</i>	<i>5.32</i>	<i>31.18</i>	<i>81</i>	<i>3.52</i>	<i>23.1</i>	<i>>100%</i>	<i>51.1%</i>	<i>35.0%</i>
Total	185	5.91		102	4.23		81.4%	39.7%	

*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 nine months 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.

The increase in procurement of petroleum products and petrochemicals outside Russia in the nine months of 2018 by more than 100% 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) in nine months 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 4.1 billion and RUB 3.7 billion in the third and second quarters of 2018, respectively; and RUB 10.19 billion in the nine months 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 increase in transportation costs by 5.9% in the third quarter of 2018 compared with the previous quarter was mainly caused by increased share of pipeline and increased volumes of petroleum product exports.

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 third and second quarters of 2018, respectively:

	For 3 months ended								% change		
	September 30, 2018				June 30, 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	28.3	91.9%	61.1	2.16	28.2	92.5%	59.6	2.12	0.4%	2.5%	1.9%
Railroad and mixed	0.5	1.6%	1.6	3.55	0.7	2.3%	2.1	3.13	(28.6)%	(23.8)%	13.4%
Pipeline and FCA**	2.0	6.5%			1.6	5.2%			25.0%		
Transportation to refineries											
Pipeline***	27.1		20.5	0.75	25.5		19.7	0.77	6.3%	4.1%	(2.6)%
Railroad and mixed	2.8		9.7	3.50	2.5		8.4	3.41	12.0%	15.5%	2.6%
PETROLEUM PRODUCTS											
International sales											
Pipeline	2.2	11.5%	5.5	2.54	1.8	9.6%	4.5	2.52	22.2%	22.2%	0.8%
Railroad and mixed	13.4	70.2%	33.7	2.45	13.4	71.3%	29.9	2.23	—	12.7%	9.9%
Pipeline and FCA****	3.5	18.3%			3.6	19.1%			(2.8)%		
GAS											
Pipeline*****	bcm		RUB/bcm		bcm		RUB/bcm				
Pipeline*****	10.1		11.3	1.12	9.7		10.2	1.06	4.1%	10.8%	5.7%
Other transportation expenses*****											
			17.6					17.5	0.6%		
Total	79.8		161		77.3		152		3.2%	5.9%	

* 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 third quarter of 2018 and in the second quarter of 2018 the volumes were 4.4 bcm and 4.7 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 13.4% higher due to change in transportation structure.

Crude oil pipeline transportation cost per tonne of supplies to refineries decreased by 2.6% in the third quarter of 2018 compared to the second quarter of 2018 due to change in structure of transportation routes.

Crude oil railroad and mixed transportation cost per tonne of supplies to refineries in the third quarter of 2018 increased by 2.6% compared with the second quarter of 2018 due to change in transportation routes.

The increase in pipeline cost per tonne of petroleum products international sales by 0.8% in the third quarter of 2018 compared with the previous quarter was mainly due to change in transportation structure.

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

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

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 the nine months of 2018 and 2017, respectively:

	For 9 months ended September 30,								% change		
	2018				2017						
	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											
<u>International sales</u>											
Pipeline	83.4	92.0%	178.2	2.13	79.5	87.5%	160.9	2.02	4.9%	10.8%	5.4%
Railroad and mixed	1.6	1.8%	5.4	3.56	1.6	1.8%	5.4	3.36	0.0%	0.0%	6.0%
Pipeline and FCA**	5.6	6.2%			9.7	10.7%			(42.3)%		
<u>Transportation to refineries</u>											
Pipeline***	77.7		59.6	0.77	76.6		56.7	0.74	1.4%	5.1%	4.1%
Railroad and mixed	7.7		26.8	3.48	7.6		24.9	3.26	1.3%	7.6%	6.7%
PETROLEUM PRODUCTS											
<u>International sales</u>											
Pipeline	6.2	11.0%	16.3	2.65	6.2	11.5%	17.0	2.77	0.0%	(4.1)%	(4.3)%
Railroad and mixed	40.1	71.0%	101.4	2.53	39.0	72.8%	96.5	2.47	2.8%	5.1%	2.4%
Pipeline and FCA****	10.2	18.0%			8.4	15.7%			21.4%		
GAS											
Pipeline*****	bcm		RUB/bcm		bcm		RUB/bcm				
	30.5		33.6	1.10	31.4		37.0	1.18	(2,9)%	(9,2)%	(6,8)%
Other transportation expenses			51.7				46.0		12.4%		
Total	232.5		473		228.6		444		1.7%	6.5%	

*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. These volumes amounted to 14.9 bcm in the nine months of 2018 and 2017, 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 nine months of 2018 compared with the same period of 2017 mainly resulted from tariffs indexation.

Excise Taxes

Excise tax in the third quarter of 2018 was RUB 77 billion (including excise tax related to processing outside Russia in the amount of RUB 27 billion) compared with excise tax of RUB 86 billion in the second quarter of 2018. The decrease was caused by lower excise tax rates¹ with higher volumes of production in the third quarter of 2018.

Excise tax in the nine months of 2018 compared with the same period of 2017 increased to RUB 247 billion due to higher excise tax rate for certain types of petroleum products.

¹The excise rates for June 2018 are reduced in accordance with new Federal law 199-FZ, of 19.07.2018 acting from 01.06.2018 in part of changes in excise rates for high octane gasoline compliant with euro-5, diesel and middle distillates.

Export Customs Duties

Export customs duties include crude oil and petroleum products export customs duties. Export customs duty rates are presented above under "Macroeconomic Factors Affecting the Results of Operations – MET, Export Duties and Excise Taxes" and more information on export duty taxation is provided further in the Appendix 1 "Taxation".

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

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2018	June 30, 2018		2018	2017	
	RUB billion, except %					
Export customs duty for crude oil	209	176	18.8%	543	347	56.5%
Export customs duty for petroleum products	80	64	25.0%	201	129	55.8%
Total export customs duty	289	240	20.4%	744	476	56.3%

Export customs duty growth in the third quarter of 2018 compared with the second quarter of 2018 was caused by an increase in export customs duty rates due to higher Urals price (+2.4% in USD terms), RUB depreciation and negative effect of duty time lag compared to the second quarter.

In the nine months 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 (+39.6% in USD terms).

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

	For 3 months ended		% change	For 9 months ended September 30,		% change
	September 30, 2018	June 30, 2018		2018	2017	
	th. RUB per tonne, except %					
Enacted export customs duty on crude oil	8.83	7.46	18.4%	7.65	4.87	57.3%
Actual customs duty on crude oil exports	8.27	6.95	19.0%	7.18	4.70	52.8%

The deviation of average actual export customs duty from the enacted one 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 9 months ended September 30,		% change
	September 30, 2018	June 30, 2018		2018	2017	
Financial results. RUB billion						
EBITDA	(15)	(11)	(36.4)%	(39)	(46)	15.2%
Capital expenditures*	4	2	100.0%	11	25	(56.0)%

*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 third quarter and second of 2018 amounted to RUB 35 billion and RUB 43 billion, respectively.

General and administrative expenses, net of the allowance for expected credit losses, were RUB 112 billion in the nine months of 2018 and RUB 104 billion – in the nine months 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 third quarter of 2018 DDA grew to RUB 163 billion compared with the second quarter of 2018 (RUB 157 billion) that was caused by putting into operation of fixed assets at new projects. The DDA grew in the nine months of 2018 compared to the same period of 2017 due to the acquisition of new assets in 2017 and production growth at new projects.

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 for the periods analysed (in RUB billion):

	For 3 months ended		%	For 9 months ended		%
	September 30, 2018	June 30, 2018		September 30, 2018	September 30, 2017	
Mineral extraction tax	640	566	13.1%	1,661	1,047	58.6%
Excise tax	77	86	(10.5)%	247	243	1.6%
Social security tax	16	17	(5.9)%	50	46	8.7%
Property tax	10	11	(9.1)%	32	28	14.3%
Other taxes, interest, penalties and other payments to budget	2	2	–	5	5	–
Total taxes other than income tax	745	682	9.2%	1,995	1,369	45.7%

Taxes other than income tax in the third quarter of 2018 compared with the second quarter of 2018 increased by 9.2% caused by the growth of the mineral extraction tax expense (by 13.1% due to the growth of average crude oil extraction tax rate) and growth of crude oil production volumes.

In the nine months of 2018 compared with the same period of 2017, taxes other than income tax increased by 45.7% mainly due MET base rate growth.

Finance Income and Expenses

In the third quarter of 2018, net finance expenses were RUB 51 billion compared with RUB 47 billion in the second quarter of 2018. In the nine months of 2018, net finance expenses increased to RUB 128 billion compared with RUB 88 billion in the nine months of 2017. The increase was caused by the fair value re-measurement of derivative financial instruments and re-measurement of other financial assets in accordance with IFRS 9 *Financial Instruments*.

Other Income and Expenses

In the third quarter of 2018, other income amounted to RUB 21 billion, if compared to RUB 32 billion in the second quarter of 2018 due to recognition of the gain on bargain purchase and other income. In the nine months of 2018 and 2017 the amount of other income amounted to RUB 59 billion and RUB 4 billion, respectively.

Other expenses include assets impairment, effect of fixed assets disposal in the course of operating activities and other expenses. In the third quarter of 2018, other expenses increased to RUB 150 billion compared to

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RUB 71 billion in the second quarter of 2018 including the recognition of goodwill impairment of RUB 47 billion and recognition of the litigation provision of RUB 8 billion. In the third quarter of 2018 expenses included the recognition of goodwill impairment of RUB 133 billion in the segment "Refining and distribution".

In the nine months of 2018 other expenses amounted to RUB 237 billion and RUB 36 billion in the nine months of 2017.

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 third quarter of 2018 was profit in the amount of RUB 27 billion and RUB 72 billion in the second 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 29 billion in the nine months of 2018 and RUB 27 billion in the nine months of 2017.

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 third and second quarters of 2018 were RUB 36 billion and RUB 37 billion, respectively. In the nine months of 2018 and 2017, cash flow hedges reclassified to profit or loss recognized in the consolidated statement of profit or loss were RUB 109 billion and RUB 109 billion, respectively.

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 9 months ended September 30,	
	September 30, 2018	June 30, 2018	2018	2017
Effective rate of income tax (IFRS)	24.0%	20.5%	22.4%	21.4%

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 third quarter of 2018, the net income grew up to RUB 177 billion (RUB 142 billion attributable to Rosneft shareholders) in comparison with RUB 256 billion the second quarter of 2018. On the back of positive dynamics of operating income growth (+13.1%) compared with the second quarter 2018, the decrease in net income is mainly due to non-cash effects, including goodwill impairment of RUB 133 billion.

In the nine months of 2018 and 2017, the net income amounted to RUB 528 billion (RUB 451 billion attributable to Rosneft shareholders) and RUB 161 billion (RUB 131 billion attributable to Rosneft shareholders), respectively. Increased net income, including non-cash effect of goodwill impairment, is mainly driven by positive FX impact and one-off gain from recognizing net income from the share acquisition in upstream JV with a foreign partner and recognition of fair value of previously held interest in JV.

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 9 months ended		% change
	September 30, 2018	June 30, 2018		September 30, 2018	2017	
	RUB billion			RUB billion		
Net cash received from operating activities	507	348	45.7%	1,126	212 ¹	>100%
Net cash used in investing activities	(178)	(349)	(49.0)%	(748)	(905)	(17.3)%
Net cash (used in)/received from financing activities	(193)	(23)	>100%	(283)	153	–

¹The comparative period was revised in connection with the inclusion of cash flows from operating activities of subsidiary banks into operating activities of the Consolidated Statement of Cash Flows.

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 9 months ended		% change
	September 30, 2018	June 30, 2018		September 30, 2018	2017	
	RUB billion			RUB billion		
Net cash provided by operating activity	507	348	45.7%	1,126	212	>100%
<i>Offset of prepayments received under long term supply contracts at average ex.rate</i>	110	42	>100%	192	335	(42.7)%
<i>Offset of other financial liabilities²</i>	55	37	48.6%	126	67	88.1%
<i>Interest expense for prepayments under long term supply contracts¹</i>	24	23	4.3%	67	61	9.8%
<i>Financing of future deliveries</i>	40	–	–	40	156	(74.4)%
Adjusted net cash provided by operating activity	736	450	63.6%	1,551	831	86.6%

¹Interest expenses for prepayments under long term supply contracts are included into adjusted operating cash flows. 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 23 billion and interests paid of RUB 1 billion in the third quarter of 2018; offsetting of RUB 22 billion and interests paid of RUB 1 billion in the second quarter of 2018; offsetting of RUB 63 billion and interests paid of RUB 4 billion in the nine months of 2018 and offsetting of RUB 53 billion and interests paid of RUB 8 billion in the nine months of 2017, respectively.

²Other financial liabilities are offset by deliveries.

The increase in operating cash flow in the third quarter of 2018 is mainly associated with a decrease in working capital. In turn, the decrease in working capital was mainly due to decreased trade receivables in the third quarter of 2018 driven by the activities in the trading business aimed at improving the efficiency of cooperation with major partners.

Net cash used in investing activities

In the third quarter of 2018 the Company's investing activity mainly referred to capital expenditures. The decrease in cash used in investing activities compared with the second quarter of 2018 is associated with the return of non-current financial assets and the decrease in the volume of acquisition of short-term financial assets.

In the nine months of 2018 compared with the same period of 2017 decline in investing activity was mainly due to a significant acquisition of new assets, interests in associates and joint ventures in 2017.

Net cash (used in)/received from financing activities

In the nine months of 2018, net cash used in financing activities was mainly used for the scheduled repayment of loans. In the third quarter of 2018, the Company paid dividends for 2017 in the amount of RUB 70 billion to its shareholders.

In the nine months of 2017, net cash received from financial activities was RUB 153 billion by attracting long-term and short-term ruble funds, which was partially compensated by dividend repayments RUB 63 billion for 2016 to the Company's shareholders.

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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		%	For 9 months ended		%
	September 30, 2018	June 30, 2018		September 30, 2018	2017	
	RUB billion			RUB billion		
RN-Yuganskneftegaz	51	54	(5.6)%	163	145	12.4%
Vankor projects	18	19	(5.3)%	52	44	18.2%
Orenburgneft	8	8	–	24	21	14.3%
Samotlorneftegaz	16	14	14.3%	44	35	25.7%
Offshore projects	3	3	–	9	9	–
RN-Uvatneftegaz	8	5	60.0%	20	19	5.3%
Verkhnechonskneftegaz	4	5	(20.0)%	13	14	(7.1)%
RN-Purneftegaz	7	5	40.0%	17	16	6.3%
Rospan International	8	8	–	25	39	(35.9)%
Samaraneftegaz	6	8	(25.0)%	21	21	–
Varyoganneftegaz	4	4	–	13	13	–
VSNGK	7	9	(22.2)%	22	16	37.5%
Tomskneft VNK	2	1	100.0%	5	6	(16.7)%
RN-Nyaganneftegaz	6	5	20.0%	17	13	30.8%
RN-Severnaya Neft	4	5	(20.0)%	13	9	44.4%
Tyumenneftegaz	5	6	(16.7)%	16	16	–
Taas-Yuryakh Neftegazodobycha	5	6	(16.7)%	17	29	(41.4)%
Sibneftegaz	1	1	–	3	3	–
Bashneft-Dobycha	6	5	20.0%	15	16	(6.3)%
Bashneft-Polyus	4	5	(20.0)%	11	16	(31.3)%
Sorovskneft	1	2	(50.0)%	4	5	(20.0)%
Kondaneft	5	7	(28.6)%	18	10	80.0%
Upstream projects (Zohr)	14	7	100.0%	31	–	–
Other	16	19	(15.8)%	51	38	34.2%
Government grants	(3)	–	–	(3)	(4)	(25.0)%
Total upstream segment	206	211	(2.4)%	621	549	13.1%
Tuapse refinery	1	1	–	3	5	(40.0)%
Kuibyshev refinery	–	1	(100.0)%	2	5	(60.0)%
Novokuibyshevsk refinery	2	2	–	5	4	25.0%
Syzran refinery	1	–	–	2	2	–
Angarsk refinery	1	1	–	3	3	–
Achinsk refinery	–	1	(100.0)%	1	2	(50.0)%
Ryazan refinery	1	1	–	3	3	–
Komsomolsk refinery	1	1	–	2	2	–
Saratov refinery	–	1	(100.0)%	1	1	–
Bashneft refineries	–	1	(100.0)%	2	5	(60.0)%
Other refineries	6	1	>100%	10	9	11.1%
Marketing Business Units and others	4	5	(20.0)%	13	15	(13.3)%
Total downstream segment	17	16	6.3%	47	56	(16.1)%
Total other activities	4	2	100.0%	11	25	(56.0)%
Total capital expenditures	227	229	(0.9)%	679	630	7.8%
Acquisition of licenses	–	1	(100.0)%	2	37	(94.6)%
Return of auction advances	–	–	–	–	(8)	(100.0)%

In the third quarter of 2018 total capital expenditures amounted to RUB 227 billion (decrease by 0.9%) compared with RUB 229 billion in the second quarter of 2018. In the nine months of 2018 and 2017 total capital expenditures were RUB 679 billion and RUB 630 billion, respectively (increase by 7.8%).

In the third quarter of 2018 upstream capital expenditures amounted to RUB 206 billion and changed slightly in comparison with RUB 211 billion in the second quarter of 2018. In the nine months of 2018 upstream capital expenditures were RUB 621 billion (increase by 13.1%) in comparison with RUB 549 billion in the same period of 2017. Upstream capital expenditures are mainly directed to the production drilling, the development of fields and new projects.

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

In the third quarter of 2018 downstream capital expenditures were RUB 17 billion, including capital expenditures of investment tariffs, in comparison with RUB 16 billion in the second quarter of 2018. In the nine months of 2018 downstream capital expenditures were RUB 47 billion.

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 2 billion in the nine months of 2018 referred to the acquisition of new licenses for research, exploration and production at Samara region, Republic of Bashkortostan and the Khanty-Mansi Autonomous area.

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>											
	September 30, 2018				June 30, 2018				September 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	(27.4)	(2,029)	(2.5)	–	(27.8)	(2,140)	(1.7)	–	(31.4)	(1,815)	(1.2)	–
Liquid funds ²	7.6	384	5.8	2.8	7.2	380	5.3	2.0	6.3	312	5.3	2,1
Net financial liabilities	(19.8)	(1,645)	3.3	2.8	(20.6)	(1,760)	3.6	2.0	(25.1)	(1,503)	4.1	2,1

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.

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

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 9 months ended September 30,	
	September 30, 2018	June 30, 2018	2018	2017
EBITDA margin	27.4%	26.9%	25.7%	22.7%
Net income margin attributable to Rosneft shareholders	6.2%	11.0%	7.4%	3.0%
Current ratio	0.91	0.91	0.91	0.52
	RUB / bbl			
EBITDA*/bbl	1,531	1,397	1,305	834
Upstream capital expenditures/bbl	509	541	527	471
Upstream operating expenses/bbl	238	238	235	224
Free cash flow/bbl	1,259	567	740	172
	RUB / boe			
EBITDA*/boe	1,242	1,131	1,055	672
Upstream capital expenditures/boe	413	438	426	379
Upstream operating expenses/boe	193	192	190	181
Free cash flow/boe	1,021	459	598	139

*The effect of associates and joint ventures 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 9 months ended September 30,	
	September 30, 2018	June 30, 2018	2018	2017
Crude oil and NGL production (mln bbl)	404.4	390.1	1,177.6	1,166.5
Crude oil, NGL and gas production (mln boe)	498.4	482.0	1,457.2	1,448.7

*Excluding share in production of associates and joint ventures.

Calculation of EBITDA

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2018	June 30, 2018	2018	2017
	RUB billion			
Revenues and equity share in profits of associates and joint ventures	2,286	2,065	6,073	4,305
Effect of prepayments offsetting	58	35	126	145
Costs and expenses	(1,864)	(1,692)	(5,078)	(3,880)
Depreciation, depletion and amortization	163	157	472	440
EBITDA	643	565	1,593	1,010

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Calculation of Free Cash Flow

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2018	June 30, 2018	2018	2017
	RUB billion			
Operating cash flow	507	348	1,126	212
Capital expenditures	(227)	(229)	(679)	(630)
Offset of prepayments under long-term supply agreements*	110	42	192	335
Offset of other financial liabilities	55	37	126	67
Interest expense on prepayments under long-term supply agreements**	24	23	67	61
Financing of future deliveries	40	–	40	156
Free cash flow (RUB equivalent)	509	221	872	201

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

** Free cash flow estimation includes interest expenses on the prepayments on long-term oil and petroleum products supply agreements. Interest expenses on the prepayments 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 23 billion and interests paid of RUB 1 billion in the third quarter of 2018; the offsetting of RUB 22 billion and interests paid of RUB 1 billion in the second quarter of 2018; the offsetting of RUB 63 billion and interests paid of RUB 4 billion in the nine months of 2018 and offsetting of RUB 53 billion and interests paid of RUB 8 billion in the nine months of 2017, respectively.

Calculation of EBITDA Margin

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2018	June 30, 2018	2018	2017
	RUB billion (except %)			
EBITDA	643	565	1,593	1,010
Revenues and equity share in profits of associates and joint ventures	2,286	2,065	6,073	4,305
Effect of prepayments offsetting	58	35	126	145
Adjusted revenues	2,344	2,100	6,199	4,450
EBITDA margin	27.4%	26.9%	25.7%	22.7%

Calculation of Net Income Margin attributable to Rosneft shareholders

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2018	June 30, 2018	2018	2017
	RUB billion (except %)			
Net income attributable to Rosneft shareholders	142	228	451	131
Revenues and equity share in profits of associates and joint ventures	2,286	2,065	6,073	4,305
Net income margin	6.2%	11.0%	7.4%	3.0%

Calculation of Current ratio

As of the date	September 30, 2018	June 30, 2018	September 30, 2017
	RUB billion (except ratios)		
Current assets	2,603	2,531	1,836
Current liabilities	2,870	2,777	3,503
Current ratio	0.91	0.91	0.52

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

Consolidated financial highlights (in USD terms)

Consolidated statement of profit or loss*

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2018	June 30, 2018	2018	2017
	USD billion			
Total revenues and equity share in profits of associates and joint ventures	35.8	33.9	100.6	76.3
Costs and expenses				
Production and operating expenses	2.6	2.1	7.5	7.7
Cost of purchased oil, gas, petroleum products and refining costs	4.5	4.6	13.2	9.9
General and administrative expenses	0.5	0.7	1.8	2.0
Pipeline tariffs and transportation costs	2.4	2.5	7.7	7.6
Exploration expenses	–	0.1	0.1	0.2
Depreciation, depletion and amortization	2.5	2.5	7.7	7.5
Taxes other than income tax	11.6	10.9	32.5	23.4
Export customs duty	4.4	3.9	12.1	8.2
Total costs and expenses	28.5	27.3	82.6	66.5
Operating income	7.3	6.6	18.0	9.8
Finance income	0.4	0.5	1.4	1.4
Finance expenses	(1.2)	(1.2)	(3.5)	(2.9)
Other income	0.3	0.5	0.9	0.1
Other expenses	(2.1)	(1.2)	(3.6)	(0.6)
Foreign exchange differences	(0.4)	0.6	(0.3)	(2.4)
Cash flow hedges reclassified to profit or loss	(0.6)	(0.6)	(1.8)	(1.9)
Income before income tax	3.7	5.2	11.1	3.5
Income tax expense	(0.9)	(1.1)	(2.5)	(0.8)
Net income	2.8	4.1	8.6	2.7
Net income attributable to Rosneft shareholders	2.3	3.6	7.4	2.2

* 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 9 months ended September 30,	
	September 30, 2018	June 30, 2018	2018	2017
EBITDA margin	27.4%	26.8%	25.5%	22.7%
Net income margin attributable to Rosneft shareholders	6.4%	10.6%	7.4%	2.9%
Current ratio	0.91	0.91	0.91	0.52
	USD/bbl*			
EBITDA/bbl	23.2	22.6	21.1	14.3
Upstream capital expenditures/bbl	7.8	8.8	8.6	8.1
Upstream operating expenses/bbl	3.6	3.8	3.8	3.8
Free cash flow/bbl	19.2	9.2	11.8	2.9
	USD/boe			
EBITDA/boe	18.9	18.3	17.0	11.5
Upstream capital expenditures/boe	6.3	7.1	7.0	6.5
Upstream operating expenses/boe	2.9	3.1	3.1	3.1
Free cash flow/boe	15.6	7.4	9.5	2.3

* Calculated from unrounded data.

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Calculation of Free Cash Flow

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2018	June 30, 2018	2018	2017
	USD billion			
Operating cash flow	7.8	5.7	18.2	3.5
Capital expenditures	(3.5)	(3.7)	(11.1)	(10.8)
Offset of prepayments under long-term supply agreements	1.6	0.7	3.0	5.7
Offset of other financial liabilities	0.8	0.6	2.0	1.2
Interest expense on prepayments under long-term supply contracts	0.5	0.3	1.2	1.1
Financing of future deliveries	0.6	–	0.6	2.7
Free cash flow	7.8	3.6	13.9	3.4

Calculation of EBITDA Margin

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2018	June 30, 2018	2018	2017
	USD billion (except %)			
Revenues and equity share in profits of associates and joint ventures	35.8	33.9	100.6	76.3
Operating expenses	(28.5)	(27.3)	(82.6)	(66.5)
Depreciation, depletion and amortization	2.5	2.5	7.7	7.5
EBITDA	9.8	9.1	25.7	17.3
Revenues and equity share in profits of associates and joint ventures	35.8	33.9	100.6	76.3
EBITDA margin	27.4%	26.8%	25.5%	22.7%

Calculation of Net Income Margin

	For 3 months ended		For 9 months ended September 30,	
	September 30, 2018	June 30, 2018	2018	2017
	USD billion (except %)			
Net income attributable to Rosneft shareholders	2.3	3.6	7.4	2.2
Revenues and equity share in profits of associates and joint ventures	35.8	33.9	100.6	76.3
Net income margin	6.4%	10.6%	7.4%	2.9%

Calculation of Current ratio

As of the date	September 30, 2018	June 30, 2018	September 30, 2017
	USD billion (except ratios)		
Current assets	39.7	40.3	31.6
Current liabilities	43.8	44.3	60.4
Current ratio	0.91	0.91	0.52

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
MET reduced by “Dm” coefficient, 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 tonnes 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 for the period of 2017-2021: + 306 RUB/tonne 306 in 2017 (357 RUB/tonne in 2018, 428 RUB/tonne in 2019-2021).

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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 and keeping export duties with exemption from their payment for a certain period for new fields in Eastern Siberia (group 1-2).

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 commercial oil production at the field (further "grace period"):

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

The Federal law of 03.08.2018 No. 301-FZ "On amendments to part two of the Tax code of the Russian Federation" provides for amendments to the procedure for the MET. The procedure for determining MET rate on oil has been adjusted:

- new terms have been added to the formula for calculating MET rate for oil since 2019, increasing the amount of MET by the amount of reduction of export customs duties;
- for 2021 the "additional term" to MET rate in the amount of 428 RUB/t (the coefficient of KK reducing the indicator characterizing features of oil production (Dm) and increasing thereby the rate of MET) is prolonged;

Adjusted the procedure for determining MET rate on gas condensate - from 2019, MET rate is increased by the amount of reduction of export customs duties multiplied by 0.75.

A tax deduction has been introduced and the procedure for determining it for deposits in respect of which export duty exemptions are applied. This deduction is aimed at compensating the loss of economic effect from the granted export duty benefits in connection with the completion of the tax maneuver (in which the duties are reduced to zero from 2024).

The conditions under which technical propane-butane is also qualified as a broad fraction of light hydrocarbons for the purposes of tax deduction (reduction of MET) in the production of gas condensate are determined.

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.

New changes in the Tax code from 2019

The Federal law of 03.08.2018 No. 301-FZ provides for amendments to the taxation of excise duties.

New excisable goods (oil raw materials and dark bunker fuel) and new operations subject to excise taxation are introduced, with the possibility of applying the mechanism of “reverse excise” (deduction of the accrued excise tax with an increasing coefficient):

- for oil raw materials (for the organizations-owners of raw materials processed in the Russian Federation which received special certificate from the tax authorities);
- dark bunker fuel (when using fuel for bunkering (refuelling) of vessels and (or) machinery and constructions located in internal sea waters and continental shelf of the Russian Federation, etc.).

The law sets the procedure of application of “reverse excise” on oil raw materials, including:

- arrangements for obtaining a special certificate, required for the application of “reverse excise”;
- the approach for calculating the excise rate on oil raw materials (based on market oil prices, forex rates and the number and types of oil products);
- the approach for calculating the “damping component” of the excise deduction aimed at reducing the effect of macroeconomic fluctuations on the domestic market of motor fuels.

There is an increase of 1000 RUB/t from 01.01.2022 of the current excise tax deduction in respect of production of medium distillates for bunkering (refuelling) of vessels and (or) machinery and constructions located in internal sea waters and continental shelf of the Russian Federation, etc., as well as for the sale of medium distillates exported outside the territory of the Russian Federation as supplies on vessels or placed under the export customs procedure.

For the period from 2019 to 2021 excise rates are set for excise goods, including gasoline (non-compliant to class 5 and compliant to class 5), diesel, motor oils for diesel and (or) injector engines, jet fuel, medium distillates. Also the law introduces the new procedure for determining the excise tax rate on straight-run gasoline, gasoline, paraxylene, orthoxylene, excise tax rate on dark marine fuel.

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.

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 plus 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 plus 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.

The Protocol on amendments to the Agreement between the Government of the Russian Federation and the Government of the Republic of Belarus on measures to regulate trade and economic cooperation in the export of oil and oil products dated January 12, 2007 introduced quotas for duty-free export of oil and oil products to the Republic of Belarus and a ban on export in excess of the established quotas from November 1, 2018.

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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Marginal export customs duties for petroleum products are 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 tax on additional income from production of hydrocarbons (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 Federal law No. 305-FZ "On amendments to article 3.1 of the law of the Russian Federation "On customs tariff" introduces the following amendments to the procedure for calculating export duties on oil and oil products.

- 1) Duty rate for crude oil will be calculated as the product of the marginal rate and the adjusting factor, which reflects the gradual reduction of the export duty rate until zero in 2024.
- 2) The government of the Russian Federation has the right to impose "protective" duties on crude oil (in an amount not exceeding the level of $29.2 + 45\% \times (\text{the price of "Urals"}) / t - \$ 182.5 / t$) and oil products with a significant change in oil prices and the price of oil above 182.5 USD per ton.

When applying the "protective" duty on crude oil, the rates of export duties on petroleum products may be set by the Government of the Russian Federation in the amount of 60% of the duty on crude oil.

- 3) At the level of the law, the list of fields and the maximum accumulated volume of oil that can be exported using special formulas for calculating the export duty rate shall be fixed. The above-mentioned East-Messoyakh field (the total amount of oil that can be exported using the "preferential" rate – 32.08 mln tonnes), Srednebotuobinskoye field (32.742 mln tonnes) and Kuyumbinskoye field (76.433 mln tonnes) are named in the Law.

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
July	62.88	59.67
August	66.12	59.65
September	67.66	57.70